

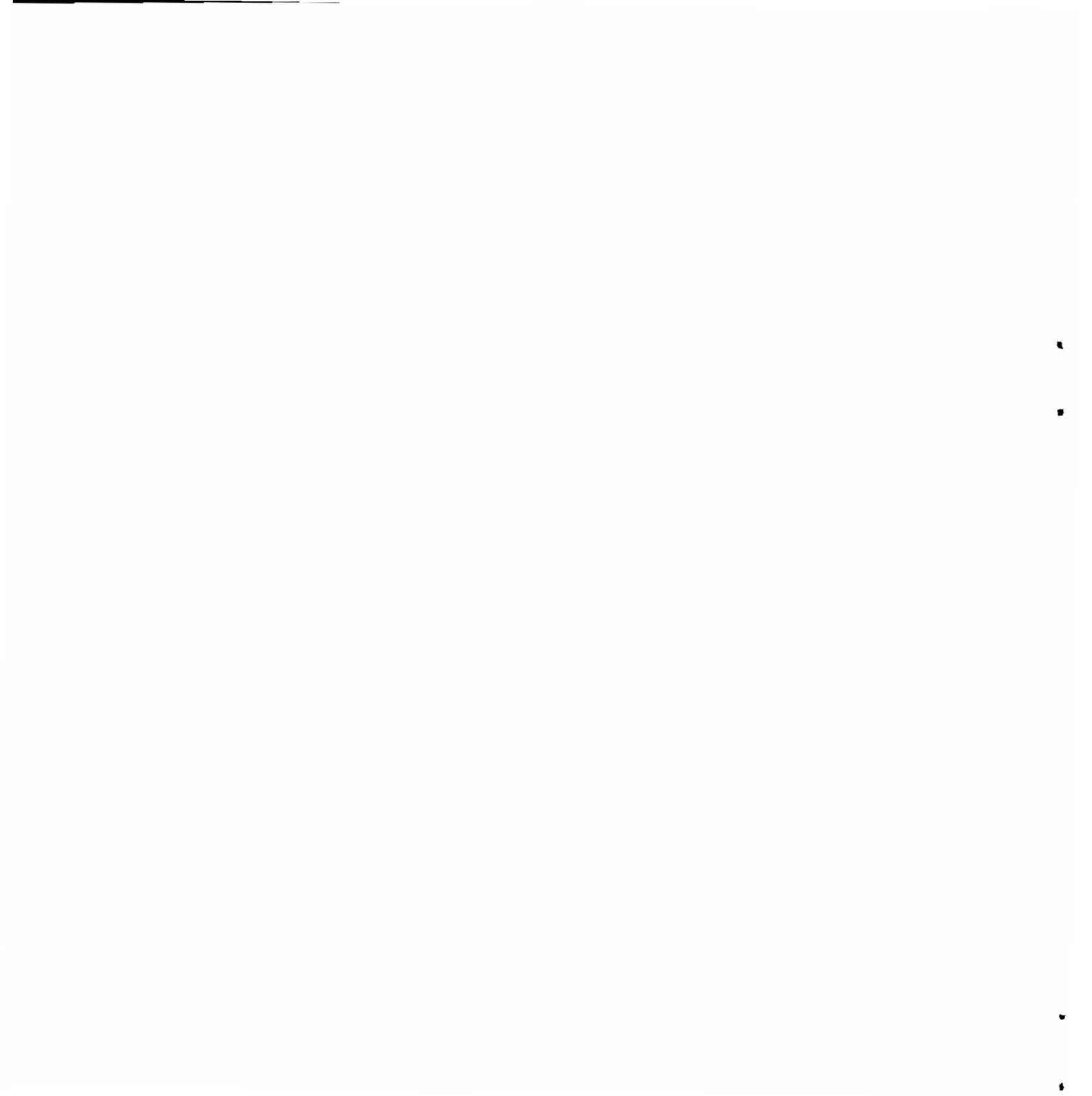
UNITED NATIONS
ECONOMIC COMMISSION
FOR LATIN AMERICA
AND THE CARIBBEAN - ECLAC



Distr.
GENERAL
LC/G.1553
27 March 1989
ORIGINAL: ENGLISH

TRANSNATIONAL BANK BEHAVIOUR AND THE INTERNATIONAL
DEBT CRISIS *

* This study was prepared by the Joint ECLAC/CTC Unit for the forthcoming session of the Commission on Transnational Corporations (New York, 5-14 April 1989). The Centre on Transnational Corporations will publish a final version of this document in English.



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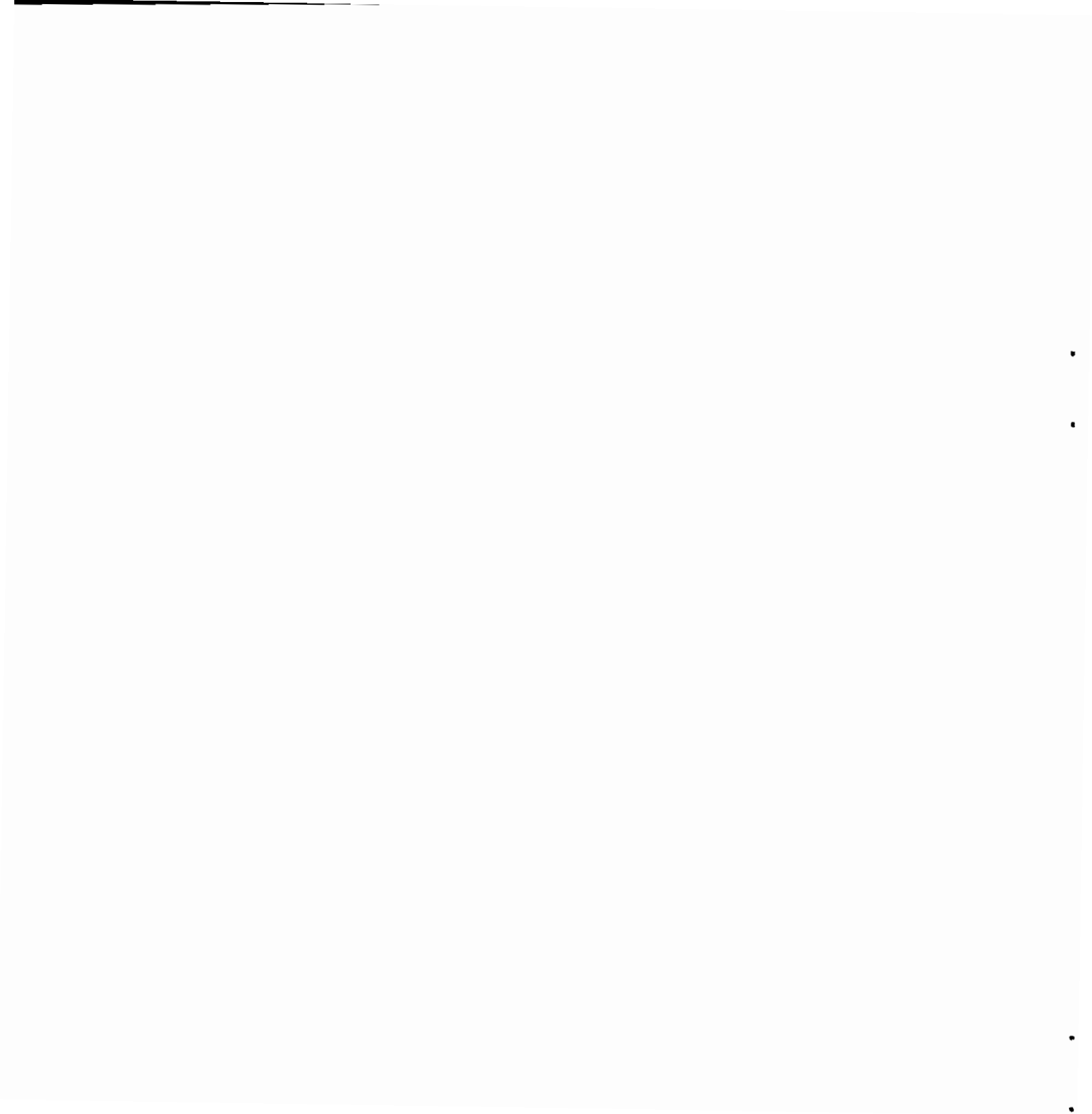
PREFACE

The decision by the United Nations Centre on Transnational Corporations (UNCTC) to analyse the role of transnational banks (TNBs) as a factor in the international debt crisis was based on the perception that the principal existing explanations, that is, inadequate policy responses by developing country borrowers and negative elements in the international economic environment, were not sufficient to explain the emergence and persistence of the crisis. It was felt that a better comprehension of the nature of the problem required a focus on an important agent --transnational banks-- left out of the analysis elsewhere. A better comprehension, in turn, could provide the basis for a more realistic response to the crisis by all parties involved, that is, TNBs, developing country borrowers, multilateral and national institutions.

Building on the materials collected by the Joint Unit of the Economic Commission for Latin America and the Caribbean (ECLAC) and UNCTC in the course of a few case studies of Peru, Bolivia and Colombia, it was decided to implement an expanded interregional project to comprehend better the phenomenon, in particular by examining the loan contracts signed by developing country debtors. The ECLAC/UNCTC Joint Unit carried out two more case studies, those of Argentina and Uruguay; the Joint Unit of the Economic and Social Commission for Asia and the Pacific (ESCAP) undertook the case study of the Philippines; while the Joint Unit of the Economic and Social Commission for West Asia (ESCWA) was assigned the examination of the case of Egypt. Because of the lack of pertinent loan contract information in the case of Egypt, it could not be included in the empirical part of this study. The number of case studies thus stands at six.

This study, based on data gathered from multilateral institutions and case studies undertaken as a part of the interregional project as well as an extensive examination of the vast published literature, contains a wealth of information and new analytical insights. It is hoped that the study will make a valuable contribution to a more informed debate on the international debt crisis.

Peter Hansen
Executive Director
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SUMMARY AND CONCLUSIONS

The focus of the Interregional Project on Transnational Banks (TNBs) is the behaviour of the transnational banks during the boom in sovereign lending to developing countries and during the subsequent debt restructuring process. It is recognized that debtor country policies and adverse external conditions such as high interest rates and deterioration in terms of trade were also important factors in explaining the international debt crisis; however, given that these factors have been the subject of considerable analysis, especially by multilateral institutions, such as the International Monetary Fund and World Bank, it was decided to focus on TNB behaviour which received scant attention. The Interregional Project on TNBs include six country case studies in which relevant information was collected from the loan contracts made with TNBs. That information provided the basis for a new appreciation of TNB behaviour during the boom in sovereign lending and the debt restructuring process which followed.

It was found that, according to their size and general behaviour in organizing syndicated credits during the boom, the 25 principal TNB organizers of such credits could be roughly subdivided into three groups: 1) five large United States banks (Citicorp, Chase Manhattan, BankAmerica Corp., J.P. Morgan and Co. and Manufacturers Hanover) which dominated the process of syndicating sovereign loans; 2) 10 relatively smaller banks, mainly of non-United States origin (Lloyds, Bank of Montreal, Bank of Tokyo, Bankers Trust, Chemical Bank, Canadian Imperial Bank of Commerce, Toronto Dominion Bank, Commerzbank A.G., Bank of Nova Scotia and Long Term Credit Bank of Japan) which actively competed with the first group in the organization of syndicated credits; and 3) 10 others (National Westminster, Deutsche Bank, Royal Bank of Canada, West Deutsche L.B., Dresdner Bank, Barclays Bank, Midland Bank group, Credit Lyonnais, Industrial Bank of Japan and Banque Nationale de Paris) all large non-United States banks which, though active in organizing syndicated credits, were generally less active than the other two groups of banks. For the sake of convenience, these three groups of banks are henceforth called the leaders, the challengers and the followers respectively.

Based on existing literature on the subject, information from secondary sources and the original case studies carried out by the UNCTC/ECLAC Joint Unit, the hypothesis that a group of challengers via price competition had undercut the dominant position of leaders in the syndicated loan market was advanced. Also the hypothesis that the different behaviour of distinct categories of TNBs would have varying impacts on debtor countries, both during the credit boom and the debt restructuring periods, was tested by way of case studies in some of the more indebted developing countries. The

findings demonstrated that while the hypothesis was correct, TNB behaviour was considerably more complex than anticipated.

The six country case studies consisted of three which could be termed more price competitive markets, in which increased price competition by banks to place syndicated credits was coupled with increasing volumes of lending during the boom (the cases of Argentina, Philippines and Colombia) and three which might be labelled riskier markets, that is, those in which such price competition did not exist or at least was not coupled with rising volumes of lending during the boom (the cases of Peru, Bolivia and Uruguay). The principal behavioural tendencies of the different categories of TNB organizers, by type of market, are summarized below.

The information from the case studies suggests that all categories of organizers as well as other banks were more active in the more price competitive markets than in the riskier ones. In these more price competitive markets, such as Argentina, Philippines and Colombia, the leaders, the challengers and the followers were active in the organization of syndicated credits for the public sector or guaranteed by the public sector; however, the challengers were much more active than the leaders, who tended to vacate those markets as price competition stiffened and potential earnings shrank. The challengers continued to organize syndicated loans for public sector borrowers compensating for lower earnings (fees, commissions and interest) by mobilizing ever-increasing volumes. The leaders tended to focus their attention on riskier (usually unguaranteed) private sector borrowers in these countries usually via direct loans carrying a considerably steeper rate of interest. The followers, in differing degree, were active in both areas but at levels lower than the challengers in organizing syndicated credits and lower than the leaders in placing direct loans with private sector borrowers. Other banks, particularly banks entering the syndicated loan market for the first time were increasingly the most important participants in the syndicated credits put together by the 25 principal organizers and in which interest earnings were severely reduced through heightened price competition.

In the riskier markets, such as Peru, Bolivia and Uruguay, the leaders were very much more active than other banks in organizing and participating in syndicated credits to the public sector (or guaranteed by such) and to a limited degree, in lending directly to private sector clients. During the boom the challengers were relatively inactive in these markets. The followers, again, demonstrated a bit of both behaviour, organizing more than the challengers but considerably less than the leaders in these riskier countries. Banks outside of the group of principal organizers were the major participants in those syndicated loans mobilized by leaders and, to a lesser extent, followers. In partial compensation for its much higher level of risk-taking the leaders received high fees, commissions and interest earnings from these riskier clients.

While it is clear that most of the principal organizers clearly overlent to major player debtors during the boom, this common effect masks at least two distinct behavioural tendencies. The challengers overlent to the more creditworthy clients due to the competitive atmosphere which took hold during the boom in sovereign lending. These banks tended to assume excessive

exposure to insolvency due to "disaster myopia". This concept implies that because of competitive pressures which erode the returns to lenders over time, many banks had to forgo the collection of an uncertainty premium for bearing exposure to a major shock of low but unknown probability and/or to allow their capital positions to decline and/or their exposure to funding shocks to rise. This phenomenon represents a technical failure in risk estimation or creditworthiness evaluation which is converted into a systemic tendency and it became particularly characteristic of the behaviour of challengers and new entrant banks. This behaviour stems primarily from a perspective of sovereign lending, in which, the aim was to increase market share by way of ever-larger transactions with the more creditworthy of existing clients.

The leaders appear to have overlent for different reasons. Given their pronounced short-term profit orientation, these organizers felt compelled to move outside the confines of the public sector borrowers of their more creditworthy clients to place higher-return loans with significantly more risky clients, such as sovereign borrowers on the margin of the international market or unguaranteed private sector clients in the more price competitive markets. In this, leaders showed a greater tendency to aggressively sell higher priced loan packages to borrowers traditionally denied access to international credit markets altogether or who were at least denied such large amounts of funds. Although there was no alteration in the risk characteristics which relegated them to the margin of international borrowing, these borrowers suddenly found leaders seeking to persuade them to take on huge credits which they had not contemplated borrowing or, at least, not in such large volumes. The leaders thus tended to depend on income more from special deals with riskier clients willing to pay higher fees, commissions and interest to gain market access.

In sum, the principal behavioural tendencies of the major transnational banks during the credit boom can be distinguished in terms of the disaster myopia or technical failure demonstrated by challengers in the competitive markets and an act of conscious overlending by leaders in organizing syndicated loans for the riskier sovereign clients or in placing direct loans with the unguaranteed private sector ones of the more price competitive markets. In this sense, not only did TNB overlending contribute to the debt crisis, different categories of organizers contributed in distinct manners to that crisis.

The debt restructuring process offered new experiences for most of the participants involved, the principal TNB organizers and the major debtors, especially the riskier ones. The principal TNB organizers were undoubtedly able to exercise much control and influence over the debt restructuring process and to obtain significant benefits. The debtors were most likely unfavourably surprised by the initial cohesion of the creditor bloc and the fact that debtors were obliged at the beginning of the restructuring process to assume virtually all costs associated with the international debt crisis. Previous experience with such matters did not prepare debtors for the debt restructuring process of the 1980s.

Previously, creditors generally had little recourse if a sovereign borrower was unable to honour its commercial commitments due to unfavourable

international economic factors. Creditors (usually bondholders) often formed national pressure groups and their governments took up their cause in bilateral discussions with the debtor government. The debtor's sovereign immunity protected it from suit or the execution of decisions of foreign tribunals. A new situation for the debt restructuring process of the 1980s resulted from statutes in the United States and the United Kingdom during the 1976-1978 period which enacted a new restricted theory of sovereign immunity, one which allowed sovereign debtors to waive their immunity. That soon became a standard feature of TNB loan contracts during the boom in sovereign lending. Excluding Colombia which represents a special case in this field, over 80% of the total value of the contracts for which there was information reviewed in the course of this study were covered by such clauses. The rules of the game were thus changed and that had a strong impact on the definition of debt restructuring process, apparently eliminating non-payment as a realistic alternative for developing country sovereign debtors facing an unfavourable international economic situation.

The second major feature of the debt restructuring process for the 1980s was its essentially private nature and the control or influence over it exercised by the principal TNBs, especially the leaders (which had demonstrated the most imprudent lending behaviour during the boom). Debtors negotiated with multilateral institutions and in some instances with creditor national government agencies with respect to their programmes for economic adjustment; however, they were told to speak directly to the bank steering committees as to how to handle upcoming payments on their TNB debt. As it turns out, the bank steering committees for the six case studies, as well as those for the principal debtors, Mexico and Brazil, were dominated by the leader banks. A leader was the co-ordinating agent in all cases, except Colombia (coincidentally, the only major Latin American debtor not to restructure its debt). Citicorp was the co-ordinating agent in five cases and BankAmerica Corp. and Manufacturers Hanover in one case each. Even in the case of Colombia, the co-ordinating agent was a major US bank (Chemical Bank). In terms of the nationality of banks on the steering committees, US banks usually filled one-half of the positions on those committees, a proportion which considerably exceeded their exposure, even in the riskier cases. Although challengers were fairly well represented on the committees of Mexico and Brazil, they were underrepresented in the other more price competitive cases where the leaders in fact occupied more positions than challengers. Surprisingly, challengers had a more even representation with leaders on the committees of the riskier cases, where their exposure was much smaller than that of the leaders. In other words, the leaders came to dominate the bank steering committees of the most important debtors and thereby exerted very strong influence over the debt restructuring process as a whole.

The third principal characteristic of the debt restructuring process of the 1980s was the initial unity or cohesion demonstrated by the creditor bloc of multilateral institutions and national governments. In practice, due to the much higher exposure of United States banks vis-à-vis any other single nationality of bank the United States regulatory system had a significant extraterritorial effect on the debt restructuring process. For example, the natural concern of United States officials to safeguard the United States financial system and the welfare of United States banks had a negative impact

on debtors due to the fact that discretionary decision-making by regulators had allowed United States banks much liberty in respect of risk concentration, capital adequacy obligations and provisioning requirements all of which meant that the parameters for the debt restructuring process were narrower for debtors and fewer possibilities existed for any form of debt relief. Regulators allowed United States banks (principally the most exposed of them, the leaders) to carry their loans to these major debtors at face value by way of an accounting fiction in which the banks provided new money to those debtors to keep them current on interest payments (a key criterion of the United States regulatory system). In that manner, the negotiation between United States banks and the United States regulators apparently had a more significant impact on the debt restructuring process than did the negotiations between the bank steering committees and the debtors themselves.

These three features of the debt restructuring process of the 1980s had the effect of transferring to the debtors virtually all the costs associated with the international debt crisis, at least during its first phase. That phase, which can be referred to as the forced adjustment phase for debtors corresponded to the difficult 1982-1984 period, that is, the interim between Mexico's declaration of its inability to service its bank debt and the subsequent realization that adjustment was only feasible to the extent that it was accompanied by growth (as crystallized in the stated objectives of the Baker initiative for dealing with the debt crisis). This was the phase in which the TNBs, especially the leaders, obtained the most benefits and the debtors shouldered the totality of the burden, including punitive spreads (around 2%) associated with the first restructuring agreements. The leaders' view of the debt crisis --basically as a liquidity problem-- was generally accepted as the view of the crisis by the rest of the creditor bloc, that is, the multilateral institutions and national (especially United States) agencies.

The leaders also used their influence in the bank steering committees to obtain, in some cases, special advantages beyond the additional income from the punitive spreads. Generally, they were sometimes able to improve the security of their own (greater) exposure to unguaranteed private sector borrowers by having them incorporated in one way or another into the debt restructuring agreements (thereby effectively acquiring a State guarantee in an ex-post facto manner) or by obliging debtors to establish exchange rate guarantees or other special advantages. These restructuring agreements also had the effect of grouping all local debtors into one creditworthiness category and assigning overall debt service to the State. In this fashion, higher risk clients to which leaders had presumably charged higher risk premia were suddenly of the same legal status as the more creditworthy clients whom challengers and others had charged very low risk premia. Furthermore, United States banks contributed less than their full share to new money facilities. In this sense, leaders seem to have taken advantage of their management of the bank steering committees to gain particular advantages in terms of greater security for their riskier exposure, an improved income stream from fees and punitive interest rates and a less than proportional increase in exposure via TNB debt restructuring agreements. That increased income did not go primarily to strengthen capital or make loan loss provisions. Other banks, then experiencing good interest income from their

existing exposures, tended to support the leaders' manner of dealing with the debt crisis. The leaders enjoyed the high point of their control over the debt restructuring process during this phase as their interpretation of the problem and their recommended solution were adopted by the creditor bloc as a whole. Nevertheless, it also appeared evident that the huge forced adjustment of debtors seemed to serve more to strengthen the quarterly balance sheets of the leaders than to improve the medium-term economic prospects of the debtors themselves; thus it prolonged the crisis rather than resolving it.

That point seemed to have been recognized during the second phase of the debt restructuring process, 1985-1986, to the extent that the recessionary adjustment strategy came to be viewed as self-defeating and important elements of the creditor bloc --multilateral institutions and some national authorities-- came to hold the opinion that growth had to accompany adjustment. A new initiative, named after the Secretary of the United States Treasury, was suggested to replace the previous perspective. New roles were assigned to all the agents involved in the adjustment and debt restructuring process. Responsible debtors were to receive more time and improved conditions for servicing their bank debt, something manifest in the new multiyear rescheduling agreements which became more common thereafter.

The reduced earnings (commissions disappeared and spreads fell appreciably) and longer term commitments for creditors caused bank unity in the debt restructuring process to dissolve. Smaller banks and regional United States ones with more limited exposures preferred not to get locked into new money facilities with a medium-term horizon and, increasingly, they were more interested in selling their debt at a discount in the secondary market. Non-United States banks, particularly some European ones with stronger capital bases, lower exposure and more adequate loan loss provisions (as a consequence of more prudential bank supervision in those countries), increasingly sought other avenues due to the fact that the new money facility mechanism by which banks paid interest to themselves (due to regulatory environment faced by the United States banks) proved increasingly futile. In this context, the major TNBs, especially the leaders, found it more difficult to raise new money facilities and were less well-disposed themselves to increasing their own exposure as United States regulators became less tolerant with regard to discretionary decision-making favourable to the money-centre institutions. As a consequence, the TNBs were not able to mobilize anything close to the US\$20 billion in new money facilities expected of them as part of the Baker initiative and that caused dissatisfaction within the creditor bloc due to the fact that, by not fulfilling the role assigned to them, the TNBs imperiled the efforts of the other creditors, especially the multilateral institutions.

Although the creditor bloc unity was weakening and the terms for debtor countries tended to improve from those of the forced adjustment phase, debtors that did not maintain a dialogue with banks and multilateral institutions and did not make an effort to keep up-to-date in their interest payments, could not benefit from these improvements. Weaker, smaller, riskier debtors did not receive access to new money or other facilities on a scale comparable to their larger borrowers unless they made exceptional concessions (as was the case of Uruguay). Peru and Bolivia (along with Nicaragua, Sudan and Zaire) were among the few debtors which fell into the value-impaired

category of the United States regulatory system which obligated United States creditors to establish allocated transfer risk reserves, which was inconvenient for them. In general, during this second phase of the debt restructuring process the weakened creditor bloc unity and the dissatisfaction with the way the banks carried out the role assigned to them resulted in a somewhat improved situation for debtors.

The 1987-1988 period was marked by a continued erosion of creditor bloc unity and open disunity among the banks, even among the leaders themselves. The new money facility for Mexico caused even the British and Japanese banks to join continental European ones in seeking new policy alternatives. The Japanese government even came up with a new global proposal for the international debt crisis at the economic summit in Toronto in 1988. The United States manner of dealing with the crisis was increasingly deviated from by virtually all participants under the framework of a menu-approach to the crisis, which emphasized debt sales in the secondary market or conversion to equity, bonds, goods, etc.

The greatly improved conditions given Mexico (agreed to in principle in October of 1986) by the TNBs, under pressure from the United States administration, resulted in the attempt by other debtors to obtain similar agreements (spreads of less than 1%, payments reprogrammed over 20 years with seven years grace, reprogramming of previously reprogrammed credits, new money facility, contingency clauses, cofinancing element with World Bank). Brazil's attempt to obtain a similar deal without formal linkage to an IMF administered adjustment programme was not accepted by the TNBs and Brazil declared a moratorium in February of 1987. While the banks quickly came to agreement with other major player debtors such as Argentina, Chile, Philippines and Venezuela, the principal impact of the Brazilian moratorium was that, given the magnitude of the debt involved and the level of exposure of big United States banks, the leaders had to take action.

Citicorp, the most exposed of the leaders, sprang into action--establishing additional loan loss provisions in the order of US\$3 billion (bringing total provisions to the equivalent of about 25% of its exposure)--an initiative which demonstrated lack of solidarity among leaders as others such as Manufacturers Hanover, Chase Manhattan and BankAmerica struggled to keep it up. Their balance sheets for 1987 showed the biggest losses since the Depression. Morgan set a precedent by designing a securitized bond scheme aimed at helping Mexico capture a portion of the discount on its debt, as manifest in secondary market prices. United States regulations more and more seemed to favour the latter approach.

One very big problem facing United States regulations was that although leaders were active as intermediaries in debt conversion schemes, they rarely dealt in their own debt. As smaller United States banks and regional ones bailed out of new money facilities the leaders' share of the overall exposure of United States banks in troubled debtors was increasing. Similarly, as non-United States banks became more active in debt conversion activities, the United States share of total bank exposure was going up: meaning that the debt crisis was again (as in 1982) concentrated in the hands of the most imprudent of lenders during the credit boom.

In view of the increased resistance from creditor bloc governments and banks, and taking advantage of the new disunity among leader banks, United States regulators seem to be taking a new approach to the debt crisis in so far as it concerns United States banks. The aim apparently is to get the leaders to do something with their loan loss reserves and still huge country exposures. The United States Federal Reserve revised equity conversion regulations by no longer limiting non-financial investments to firms being privatized by debtor governments and by extending the period such investments can be held. Accounting issues concerning the "contagion" of the rest of a banks portfolio by dealing off a portion at a discount have also apparently been resolved. Furthermore, an international agreement on capital adequacy standards seems to set a definite time frame (until 1992) for debt conversion activity. As of 1992 only 1.5% of the new 8% capital/asset ratio can correspond to loan loss reserves. Presently, most leaders have reserves in the order of 4%. In other words, something is being done by United States regulators. Tax benefits for write-offs, similar to other major creditor countries, would undoubtedly speed up the process. If such actions motivate leader banks to deal off at a substantial discount significant portions of their troubled debtor exposure, the material basis for the TNB adjustment stage will have been concretized.

The intention of this study —without in any way underestimating the importance of debtor country policies or of adverse international economic environment as causes of the international debt crisis— has been to focus on another important causal factor which has been least analysed: TNB behaviour. Starting from the premise that a more thorough understanding of the causes of the international debt crisis may assist in reaching a consensus on a comprehensive approach to the solution of the debt problem, the present analysis is offered as a contribution to the ongoing debate.

Chapter I

AN OVERVIEW OF THE SOVEREIGN LENDING BOOM OF 1974-1982 AND THE RESTRUCTURING PROCESS, 1983-1987

Transnational banks and developing countries traditionally had tended to live in separate worlds during the half-century preceding the burst of TNB lending to these country borrowers which began in the early 1970s. Some large nationally-based (usually British) banks with significant international operations had sporadic yet intense financial relationships with particular developing countries during the nineteenth century; however, the borrowing government usually was not able to support the original terms of the bank loans once international trade conditions worsened. That situation seemed to hold for the first part of the twentieth century even though the United States progressively replaced Great Britain as the principal source of international credit and bonds tended to replace loans as the principal instrument of financial intermediation between lender and borrower. That experience, like the previous ones of the nineteenth century, tended to put TNBs off developing country borrowers for several decades, with the exception of short-term trade financing or home country guaranteed export credits. In a general sense, from the beginning of the Great Depression until the early 1970s, TNBs did not take risks on developing countries because their lending policies were focussed on other, more creditworthy, borrowers. The changing nature of the international financial system brought about a much closer relationship between many developing country borrowers and the transnational banks during the 1974-1982 period.^{1/}

A. The sovereign lending boom and the syndicated loan mechanism

Sovereign lending, that is, the extension of credit by banks to sovereign entities (governments, State banks and State companies) or other entities carrying a government guarantee can take place by way of loans placed directly by the individual lender or they can be done through syndicates of bank lenders in which a few principal organizers (the managers) put together a loan package in which participations are sold to other lenders which do not come into direct contact with the borrower. Faced with an incessant demand for bank credits by developing countries and the banks' new willingness to lend, the syndicated loan mechanism became much more important for mobilizing credit for sovereigns due to the fact that great volumes of credit could be organized by single operations. Individual banks became increasingly unwilling to lend ever-greater amounts by way of direct loans and the syndication mechanism allowed them to participate in packages involving many banks at a time.

The syndicated loan mechanism operated in the following manner.^{2/} Once a sovereign entity decided to seek credit on the international capital market and to do so via a syndicated loan from transnational banks, the first step was to select the principal bank organizers (lead managers) of that loan, fix the amount desired and negotiate the principal terms and conditions of the loan. The lead manager usually assembled a small group of major banks which were willing to underwrite the loan, that is, they provided the financial resources themselves if the marketing effort to attract other bank participants fell short of the target. These managers, once the mandate was given by the borrower, then drew up a contract in which numerous other banks join in as participants. Thus, the participation in the final loan might be for a US\$100 million loan, say, four organizers with US\$10 million each, seven other participants with US\$5 million each and 10 participants with US\$2.5 billion each. The principal benefits of this syndication mechanism were that it allowed the bigger more international banks to earn fee and commission income as organizers of these credits and it allowed smaller banks to participate in large-volume international credits without requiring an extensive international system of branches and affiliates nor the ability to assess the creditworthiness of the borrowers (that was done by the managers of the loan). For the borrower, it enabled the mobilization of volumes of international capital previously considered impossible to obtain.

On the whole, four principal factors are usually cited to help explain the new willingness on the part of TNBs to extend credit to developing countries during the 1970s. They are the availability of resources, a favourable external environment, the favourable terms and conditions of the loans and the perceived good use made of them by the principal developing country borrowers. These factors combined to produce the new developing country access to the international capital market via the financial intermediation of TNBs during the 1974-1982 period.

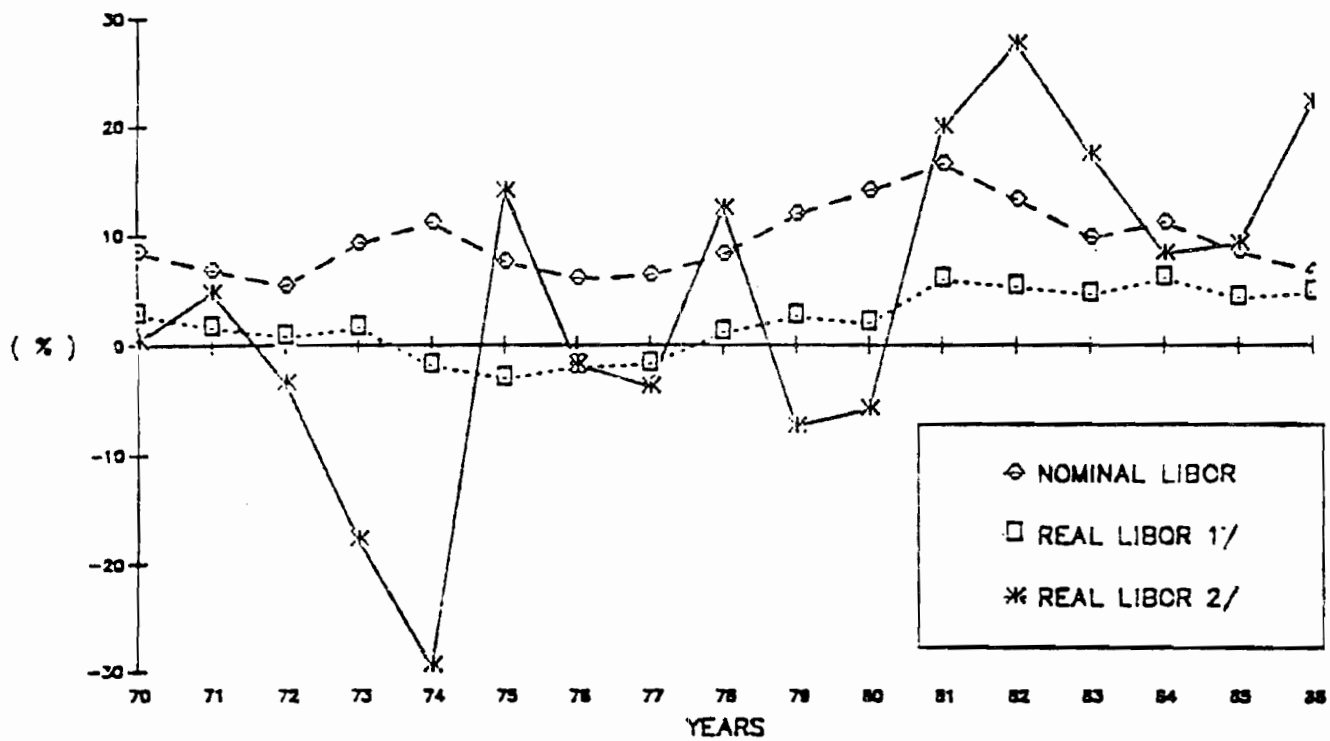
As is by now well known, the tenfold increase in the international price of petroleum by the Organization of Petroleum Exporting Countries (OPEC) in late 1973 caused a large increase in the current account deficit of the balance of payments of oil-importing countries, especially developing ones. Middle income oil-importing developing countries saw their combined current account deficits surpass US\$42 billion in 1975 which represented 5.5% of their combined gross national product (GNP).^{3/} The obvious solution was to convince OPEC members --the new holders of a rapidly growing global financial surplus-- to extend balance-of-payments financing to oil-importing developing countries, thereby avoiding systemic disequilibrium and instability in international capital markets. Existing institutional and market constraints for these prospective lenders and borrowers coupled with the recent expansion of a Eurocurrency market obviated a direct OPEC: developing country financial relationship and TNBs came to the fore as the primary recyclers of the OPEC surplus to oil-importing developing countries.^{4/} The OPEC members had a high liquidity preference in that a substantial part of their international placements were bank deposits which were placed, principally, in the Eurocurrency market, that is, the European-based markets in currencies traded outside their respective domestic economies (see annex 1).

The major TNBs with access to these Eurocurrency deposits promoted the new syndication instrument for the organization of international bank credits and this facilitated a burst of lending. The Eurocurrency markets allowed the major TNBs to "purchase" unregulated short-term deposits for lending purposes and, as mentioned, the syndication mechanism allowed these same dominant TNBs to organize and administer the participation of regional and smaller banks in large international credits, thereby mobilizing resources from participants removed from the international capital market. At the same time, many of the traditional clients of the TNBs (the governments and larger private enterprises of the industrial countries) reduced their demand for Eurocurrency credits to the extent that they succeeded in making adjustments to the oil price shock. Thus, these elements came together to produce a virtual explosion in the availability of loan capital at the disposal of TNBs, much of which was lent to developing countries in the form of syndicated credits (on top of the more traditional direct loans).

The external environment was very favourable for the TNB recycling of the initial OPEC financial surplus. The policies of the advanced industrial countries of the Organization for Economic Co-operation and Development (OECD) encouraged it for a number of reasons. It meant a private sector or "market" solution to the balance-of-payments disequilibrium of developing countries. The private sector solution relieved the OECD countries, themselves facing recession, from any major additional commitment to assist the adjustment of the oil-importing developing countries through increased official development assistance; a feature appreciated by governments demonstrating clear signs of aid fatigue. Furthermore, the boom in the export prices of many of the primary commodities produced by many of these same oil-importing developing countries during the mid-1970s was a source of confidence for all those involved —TNBs, oil-importing developing countries and the OECD countries— because it suggested that the export earnings of the borrowers would continue to rise rapidly, thereby facilitating debt service. During difficult times of exchange rate instability, strong inflationary pressures and recession, the passing off to the banks of the adjustment problem of the oil-importing developing countries meant one less worry.

The terms and conditions of the new TNB lending to developing countries proved a great stimulus to the rapid acceleration of demand. The real rate of interest on these loans was negative during this initial period (see figure 1) which was a great incentive for borrowers yet at the same time did not represent a disincentive for the TNB intermediaries due to the fact that their income came primarily from a spread or margin over the base rate of interest (usually the LIBOR), plus commissions. The attraction for borrowers was the apparently costless nature of these loans. For their part, the TNBs were avid lenders because they perceived a potentially continuous and apparently riskless income stream from new clients at a time when most domestic lending was flat. The use of borrowing government guarantees, the waiving of sovereign immunity, the institution of cross-default clauses related to the borrowing governments' guaranteed debt, the transfer of interest rate risk to the borrowers, inter alia,^{5/} gave TNBs a sense of security in respect of sovereign risk and thereby permitted syndicated credits to become a very efficient vehicle for high volume, rapidly-disbursed loans. In this way the terms and conditions of the new syndicated credits facilitated the subsequent credit explosion.

Figure 1
LONDON INTERBANK OFFERED RATE OF INTEREST (6 MONTHS), 1970-1986



Source: Calculated from IMF, *International Financial Statistics*, various issues.

aReal Rate for Industrialized Countries, Nominal Libor deflated by Consumer price Index for Industrialized Countries.

bReal Rate for Latin American Countries, Nominal Libor deflated by Unit Price of Exports of Latin America.

A fourth factor sometimes mentioned in this regard is the use made of these new TNB loans. At the early stages of the borrowing cycle not too much attention was paid to the use being made of the resources lent to the oil-importing developing countries due to the fact that they were considered "young" debtors and the most evident cases, that is, Brazil and Mexico, seemed to be performing very well. The external shocks of 1974-1975 had negatively impacted those economies to the equivalent of an average annual 3.7% and 1.0% of GDP respectively, yet each managed to raise the value of their exports by almost 8% annually between 1970 and 1980.^{6/} During the mid-1970s, Brazil was still living its economic miracle and Mexico, after some internal difficulties, was about to become a major petroleum exporter. Both were to experience high rates of growth of GDP and investment during the 1970s and both were to become members of the group of newly industrializing countries (NICs). For the TNBs and the OECD countries, Brazil and Mexico seemed to aptly approximate the correct path for economic growth and development and their contentment became manifest in the explosion of TNB lending to those developing countries which eventually spread beyond those two countries.

These four factors evidently were important causal elements in the initial burst of TNB lending to developing countries after the OPEC-induced increase of international price of petroleum in 1973 and the consolidation of the Eurocurrency markets. In their own way, the availability of loan capital, the favourable external environment, the positive terms and conditions of the new loans and the apparent good use of those resources combined to create a credit boom of a nature previously unknown in the post-war period, as far as developing countries were concerned. The origins of the debt crisis are found in the profound penetration of developing countries' external finances by the private financial entities which dominated the international capital markets.^{7/} Table 1 offers a pretty good picture of the nature of the change which took place in the external finance of developing countries during the last quarter century and, particularly, the 1974-1982 period which most concerns us at present.

Before the hike of the international price of petroleum in 1973, developing countries generally found that bilateral official development assistance from members of the Development Assistance Committee of the OECD, private direct investment and export credits were their three major sources of external resources, accounting for between 60-80% of the overall resource flows, which rose from an average of US\$35 to US\$54 billion per annum, in constant values,^{8/} during that 1960-1971 period. Over the 1974-1982 period, each one of those three major sources demonstrated a marked tendency to decline as a proportion of overall resource flows and private bank loans blossomed to become the single major new source for the relatively more advanced developing countries.

The period following the first OPEC price initiative is characterized above all else by the explosion of bank loans which consisted of the initial 1974-1977 increase of bank lending to developing countries and the 1978-1982 interim of accelerated sovereign lending. This was followed by the post-1982 period of sharply reduced bank credits. The average annual volume of resources received by developing countries more than doubled in real terms during the course of the 1970s primarily as a consequence of TNB lending,

Table 1

DEVELOPING COUNTRIES: MAJOR TYPES OF RESOURCE FLOWS RECEIVED

(Period averages in percentage calculated in 1983 and 1985
US dollars)

Type of flow	1960- 1961 f/	1970- 1971 f/	1974- 1977 f/	1978- 1982 g/	1983- 1986 g/
1. <u>Official development assistance</u>	56	43	36	28	42
a) Bilateral: total	53	37	29	22	33
DAC a/	(46)	(28)	(17)	(14)	(24)
OPEC b/	(-)	(2)	(9)	(6)	(4)
CMEA c/	(5)	(5)	(3)	(2)	(4)
Other d/	(3)	(2)	(1)	(...)	(...)
b) Multilateral	3	6	7	6	9
2. <u>Private</u>	27	40	47	55	44
a) Direct investment	19	17	14	11	11
b) Bank sector	6	15	24	36	21
c) Bond lending	...	2	2	2	3
d) Other e/	2	7	7	6	9
3. <u>Other non-concessionary</u>	16	18	16	17	14
a) Export credits	14	14	12	13	6
b) Multilateral	2	4	4	4	9
Total	100	100	100	100	100
Annual average volume (billions of constant US dollars)	34.8	53.7	81.0	118.8	83.6

Source: ECLAC/CTC Joint Unit, on basis of information from OECD, Development Co-operation, 1985 and 1987 Reports, Paris, 1985 and 1988, pp. 162 and 46, respectively.

a/ Development Assistance Committee of the Organization of Economic Co-operation and Development (OECD).

b/ Organization of Petroleum Exporting Countries.

c/ Council for Mutual Economic Assistance.

d/ Non-DAC OECD members and developing country donors.

e/ Grants by private voluntary agencies, as well as other private and official non-concessionary flows not explicitly included in 3.

f/ Calculated from total resource flow information in US dollars at 1983 exchange rates.

g/ Calculated from net resource flow information in US dollars at 1985 exchange rates.

which during the feverish 1978-1982 period, came to account for 36% of total developing country resource flows (see table 1). Combined with the sharp decline in bilateral official development assistance, the explosion of TNB lending to developing countries imposed a distinctly private character to subsequent resource flows during the boom period, 1974-1982, especially as regards the relatively more advanced or more creditworthy of the developing countries.

Viewed from the perspective of the international capital market, table 2 indicates that only one instrument among many --syndicated bank loans-- became by far the most important instrument of that market during the boom period. They accounted for almost 60% of the value of capital raised (for all borrowers, not only developing countries) during 1978-1982 when the total amount mobilized reached an annual average of almost US\$150 billion in constant 1980 values. Although the value of bond issues almost equaled that of international bank credits during 1974-1977, at about US\$40 billion per annum (in constant terms) during the subsequent period, 1978-1982, the value of international bank credits (mainly syndicated loans) about doubled the value of international bond issues in spite of the increasing dynamism demonstrated by new financial instruments such as floating rate notes and certificates of deposit. The 1983-1986 period witnessed the return of the value of syndicated bank loans to the same level as 1974-1977; however, now it corresponded to less than one-quarter rather than one-half of the total value of all capital raised on the international market. In sum, for a relatively brief period, 1974-1982, syndicated bank loans became the instrument which to an important degree moved the international capital market.

The information contained in table 3 demonstrates exactly how important for developing countries these international bank credits were, especially the syndicated loans as a means of gaining access to international capital markets during 1974-1982 and how fast those same developing countries saw that access reduced thereafter. The developing countries were able to double the real value of capital raised through international bank credits and bond issues from an annual average of US\$21 billion for 1974-1977 to US\$44 billion for 1978-1982, before dropping back to less than the original level for 1983-1986. Over 90% of the value of the gross amounts raised corresponded to bank credits (rather than bonds) for 1974-1982. Furthermore, whereas bond issues by developing countries accounted for only a very minor portion of all international bond issues, the bank credits placed with developing countries represented a little less than one-half of the total value of all bank credits during the 1974-1982 period. Thus, one can appreciate that the access of developing countries to international financial markets was limited in large part to one sole instrument --syndicated loans-- and although that instrument proved very efficient for raising and rapidly disbursing huge sums, it also demonstrated a frightening volatility as far as continued access was concerned.

It should be recognized that during the first oil price hike period TNBs had effectively minimized the systemic disequilibrium. Table 4, which contains information on all external loans not just medium-term syndicated ones, suggests that during 1975-1977 TNBs kept the net impact minimal as the net deposits of oil exporting developing countries (which averaged over

Table 2

GROSS NEW INTERNATIONAL BOND ISSUES AND BANK CREDIT
COMMITMENTS,*/ 1974-1986

	Annual averages		
	1974- 1977	1978- 1982	1983- 1986
<u>Billions of 1980 US dollars</u>			
I. International bond issues	<u>37.8</u>	<u>49.0</u>	<u>108.9</u>
- Floating rates notes and CDs a/	1.4	9.4	31.2
- Fixed rate instruments	36.4	39.6	77.7
II. International bank credits	<u>41.3</u>	<u>96.9</u>	<u>84.8</u>
- Syndicated loans	41.3	86.3	41.0
- Other intl. credit facilities b/	- c/	10.6 c/	43.8
Total	<u>79.1</u>	<u>145.9</u>	<u>193.7</u>

Percentage distribution

I. International bond issues	<u>49</u>	<u>34</u>	<u>56</u>
- Floating rate notes and CDs a/	2	7	16
- Fixed rate instruments	47	27	40
II. International bank credits	51	66	44
- Syndicated loans	51	58	21
- Other intl. credit facilities b/	- c/	8 c/	23
Total	<u>100</u>	<u>100</u>	<u>100</u>

Source: Annex 2.

*/ Publicly announced medium and long-term lending.

a/ CDs = certificates of deposit.

b/ Bank facilities used to back up the issuance of other financial instruments such as short-term euronotes, certificates of deposit, bankers acceptances and commercial paper.

c/ Before 1981, minor amounts corresponding to these instruments are included in syndicated loans.

Table 3

TOTAL GROSS AMOUNTS RAISED BY DEVELOPING COUNTRIES ON
INTERNATIONAL FINANCIAL MARKETS, */ 1974-1986

	Annual averages		
	1974- 1977	1978- 1982	1983- 1986
I. In billions of 1980 US dollars	<u>21.0</u>	<u>43.6</u>	<u>19.4</u>
- International bond issues <u>a/</u>	2.2	3.1	3.5
- International bank credits <u>b/</u>	18.9	40.5	15.9 <u>d/</u>
II. As % of total market borrowing	27	30	12
- International bond issues <u>a/</u>	6	6	3
- International bank credits <u>b/</u>	46	42 <u>c/</u>	21 <u>d/</u>
III. As % of total IDC borrowing	<u>100</u>	<u>100</u>	<u>100</u>
- International issues <u>a/</u>	10	7	21
- International bank credits <u>b/</u>	90	93	79 <u>d/</u>

Source: Annex 3.

*/ Publicly announced medium and long-term lending.

a/ International and foreign sales.

b/ Syndicated loans plus other international credit facilities.

c/ Large merger-related international credit facilities recorded in 1981 for total market.

d/ Large amounts of other international credit facilities reported.

Table 4

EXTERNAL LENDING AND DEPOSIT TAKING OF BANKS IN THE BANK FOR
INTERNATIONAL SETTLEMENTS REPORTING AREA, ^{a/} BY MAJOR GROUPS
OF COUNTRIES, 1974-1985

(Billions of 1980 US dollars and percentages)

	Annual averages			Percentage distribution		
	1975- 1977 [*]	1978- 1982	1983- 1985	1975- 1977	1978- 1982	1983- 1985
I. Lending to	86.3	143.3	151.8	100	100	100
- Industrial countries	38.6	83.2	104.7	45	58	69
- Developing countries	36.9	50.0	16.5	43	35	11
(Oil-exporting) ^{b/}	(12.7)	(8.5)	(1.6)	(15)	(6)	(1)
(Non-oil)	(24.1)	(41.5)	(14.9)	(28)	(29)	(10)
Others ^{c/}	10.9	10.1	30.6	13	7	20
II. Deposit taking from	86.3	143.3	151.8	100	100	100
- Industrial countries	55.9	103.0	108.4	65	72	71
- Developing countries	32.3	28.4	19.6	37	20	13
(Oil-exporting) ^{b/}	(18.1)	(16.4)	(1.4)	(21)	(11)	(1)
(Non-oil)	(14.3)	(11.9)	(18.2)	(16)	(8)	(12)
Others ^{c/}	-1.9	11.9	21.3	-2	8	14
III. Net claims on	-	-	-	-	-	-
- Industrial countries	-17.3	-21.8	-3.8	-20	-15	-2
- Developing countries	4.5	22.6	-3.0	5	16	-2
(Oil-exporting) ^{b/}	(-5.4)	(-7.6)	(0.2)	(-6)	(-5)	(...)
(Non-oil)	(9.9)	(29.3)	(-3.3)	(11)	(21)	(-2)
Others ^{c/}	12.8	-0.8	6.8	15	-1	4

Source: Annex 4.

^{*}/ Complete data for 1974 are not available.

^{a/} Up to 1983 the reporting area includes banks in the Group of Ten countries, Luxembourg, Austria, Denmark and Ireland, plus the offshore branches of United States banks in the Bahamas, the Cayman Islands, Panama, Hong Kong and Singapore. As from 1984 the reporting area includes in addition Finland, Norway and Spain as well as non-United States banks engaged in international business in the Bahamas, the Cayman Islands, Hong Kong and Singapore, all offshore units in Bahrain and all offshore banks operating in the Netherlands Antilles.

^{b/} Consisting of the eight Middle Eastern oil-exporters (Islamic Republic of Iran, Iraq, Kuwait, Libyan Arab Jamahiriya, Oman, Qatar, Saudi Arabia, and the United Arab Emirates) plus Algeria, Indonesia, Nigeria and Venezuela.

^{c/} Includes centrally planned economies (excluding IMF member countries), international organizations and unallocated. As of 1984, includes offshore centres.

US\$5 billion per annum in constant terms) accounted for more than half of the net lending to non-oil-developing countries. The net impact therefore was kept to the equivalent of about 5% of the value of all bank lending and to use another measuring rod, represented only one-third of the change in net claims corresponding to "other" countries (that is, centrally planned economies, international organizations and unallocated). In sum, this suggests that the financial intermediation of the TNBs during 1974-1977 kept the systemic disruption originally associated with the OPEC price rise of 1973 to a quite manageable level.

The subsequent period, 1978-1982, which encompassed the second OPEC price hike, has been characterized by accelerated lending to both industrial and developing countries; however, in the case of developing countries (both oil-exporting and non-oil ones), their deposits in TNBs plummeted to about half their previous level, measured as a per cent of all deposit-taking by those banks. This had the consequence that the net claims on developing countries, most specifically non-oil ones, rose appreciably and even surpassed the net deposits made by industrial countries during the 1978-1982 period. The net claim of the non-oil-developing countries alone reached the equivalent of over 20% of all lending for the period and even reached 25% or more during 1980 and 1981. In other words, during the second period the financial intermediation did not result in the stabilization of the international financial system. The net impact of the developing countries was no longer to a large extent self-liquidating because net deposits by oil exporters fell to only about 25% of net lending to non-oil-developing countries, which itself had tripled to close to US\$30 billion per annum, measured in constant 1980 terms. Instead of simply recycling the OPEC surplus to oil importers many TNBs increasingly committed borrowed resources to the international bank credits placed with developing country borrowers. Based on the burgeoning Eurocurrency markets many TNBs became more than simple financial intermediaries for the OPEC surplus.

The concentration of international bank credits, especially syndicated loans, in just one region --Latin America and the Caribbean-- was maintained during the boom period, representing slightly more than half of total funding as is indicated in table 5. Lending to East Asia and the Pacific also remained fairly constant as a portion of overall lending to developing countries but at a level equivalent to less than half of the average for Latin America and the Caribbean. African countries accounted for only a little more than 10% and the total lending to developing countries during the boom and Southern European countries for considerably less than that. It can be concluded then that the centre of the process of privatization of the external finances of developing countries during the 1974-1982 interim was encountered in the TNB medium-term loans, particularly syndicated ones, placed with Latin American countries.

This process naturally had a severe impact on the structure of the external medium-term public and publicly guaranteed debt of these developing countries. It should be mentioned explicitly that because of the lack of information it is not possible to present data on the total debt of these developing countries, that is, including short-term credits and unguaranteed loans to the private sector, both of which were very important features of

Table 5

VOLUME OF INTERNATIONAL BANK LOANS RAISED ON INTERNATIONAL
MARKETS a/ AND THEIR DISTRIBUTION BY AREA AND BY REGION
FOR DEVELOPING COUNTRY BORROWERS, 1974-1986

	Annual averages		
	1974- 1977	1978- 1982	1983- 1986
I. By area (1980 US\$ billion)	<u>39.9</u>	<u>82.1</u>	<u>38.0</u>
- Industrial countries	18.2	41.5	21.3
- Developing countries <u>b/</u>	17.4	36.8	13.0 <u>h/</u>
- Centrally planned & others <u>c/</u>	4.3	3.8	3.7
Percentage distribution	100	100	100
- Industrial countries	46	50	56
- Developing countries <u>b/</u>	43	45	34 <u>h/</u>
- Centrally planned & others <u>c/</u>	11	5	10
II. By region for developing countries <u>b/</u>	<u>17.4</u>	<u>36.8</u>	<u>13.0h/</u>
- Latin America & Caribbean <u>d/</u>	10.3	22.4	6.5 <u>i/</u>
- East Asia & Pacific <u>e/</u>	4.5	8.4	4.7
- Africa <u>f/</u>	1.9	3.9	0.9
- Southern Europe <u>g/</u>	0.6	2.1	0.9
Percentage distribution	100	100	100
- Latin America & Caribbean <u>d/</u>	59	61	50 <u>i/</u>
- Asia & Pacific <u>e/</u>	26	23	36
- Africa <u>f/</u>	11	11	7
- Southern Europe <u>g/</u>	4	6	7

Source: Annex 5.

a/ Medium-term external bank loans. Figures previous to 1980 include a small amount of other international credit facilities.

b/ Includes 89 developing countries which had access to international bank loans at sometime during the 1974-1986 period.

c/ Includes international development institutions.

d/ Excludes Bermuda and Puerto Rico.

e/ Excludes Gulf states (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates). Includes Taiwan province of China.

f/ Excludes South Africa.

g/ Cyprus, Turkey and Yugoslavia.

h/ Reprogrammed principal payments excluded. Fresh capital associated with agreements restructuring maturities are included and totalled US\$24.2 billion (1980 values) for period.

i/ If one excludes fresh capital (new money facilities) associated with agreements restructuring maturities this value falls to US\$1.6 billion equivalent to about 15%.

the lending boom. Annexes 6 and 7 contain the available relevant information extracted from the World Bank Debtor Reporting System relative to the external debt situation of the 75 developing countries which had some kind of access to the syndicated credit market during 1974-1982. The information pertinent to debt stocks shown in annex 6 points out that the real value of that debt of developing countries tripled as a consequence of the 1974-1982 credit boom, rising from US\$160 billion in 1974 to US\$479 billion in 1986, measured in 1980 values. As has been mentioned, according to the information on flows by source, the process of privatization of the external finances of developing countries saw official creditors give way to private ones as the principal providers of external credit such that between 1974 and 1982 official creditors saw their share of the stock of the public and publicly guaranteed external debt of these developing countries fall from 60 to 43% and private creditors saw their share rise from 40% to 57% (even though the share of suppliers collapsed during this same interim). This, of course, highlights the rapid growth witnessed in the bank debt which exploded from 24% to 46% of the total long-term public debt of these countries during 1974-1982, reaching 48% in 1986. In constant 1980 values, the bank debt went up by a multiple factor of 4 between 1974 and 1982 and by almost 6 up to 1986.

Several important consequences of this phenomenon should be emphasized. First, as young debtors, the burst of lending from transnational banks meant a huge positive net transfer for these developing countries, averaging US\$13 billion per annum (in constant values) during 1974-1977, according to the information contained in annex 7. Bank credits suddenly outpaced total official credits, as far as net transfers were concerned. Secondly, the volatility and burden of this new access of developing countries to international capital markets became increasingly apparent during the 1978-1982 boom because although average annual disbursements from banks increased by half to the equivalent of more than US\$40 billion in constant terms, principal repayments and interest payments to banks more than tripled leaving these developing countries with a smaller annual average net transfer than 1974-1977 (now resulting from much larger volumes of international bank credits). In this sense, one can appreciate that as a whole these developing countries increasingly were running harder to stay in the same place with regard to external resources from transnational banks.

The proliferation in the use of the more expensive bank credits and bond issues from financial markets greatly influenced the nature and character of the debt burden for public and publicly guaranteed debt of the 109 developing countries which report to the World Bank. Between 1975 and 1982 the ratios of their debt to export earnings and gross national product for these countries jumped from 77 and 15 to 103 and 25, respectively.^{9/} Similarly, total debt service about doubled as a percentage of export earnings and gross national product, on average. Finally, the international reserves of those countries fell from the equivalent of one-half of the outstanding public and publicly guaranteed debt in 1975 to less than one-third in 1982. All these indicators demonstrate that the greatly increased use of resources from international financial markets resulted in a significant increase in the burden associated with the external public and publicly guaranteed debt of developing countries.

Surprisingly few borrowers seemed to run into serious debt problems during this boom in sovereign lending to developing countries. The attention of the banks was focussed primarily on Turkey and some Eastern European countries in this regard. Turkey, after experiencing difficulties during 1977-1980, was considered a successful case of adjustment and eventually appeared to return to the international capital market.^{10/} The situation of the Eastern European countries, on the other hand, seemed to raise the spectre of more serious debt difficulties. According to one IMF source: "The Polish debt crisis of 1981 moved the problem into a new phase, in which 'contagion effects' became a factor. The commercial banks suddenly developed an intensified perception of risk in lending to the East European countries as a group."^{11/} During this period of TNB dominance of IDC external finances, sporadic problems such as Turkey's appeared to be resolved and, although the threat of a systemic or at least a regional crisis did present itself in the form of the Polish debt crisis of 1981 with its ancillary problems for the rest of Eastern Europe, it did not immediately affect the volume of lending to developing countries by transnational banks. It was the Mexican crisis of August 1982 which came to be viewed as the event marking the end of the lending boom to developing countries and the beginning of the debt crisis as the next section demonstrates.

B. The major developing country borrowers and their debt situations

The TNBs were a very convenient source of external finance for the more advanced developing countries during a period when the availability of official resources was slackening. Syndicated bank loans held several distinct advantages over official loans, most notably, the fact that there was practically no conditionality attached which allowed fast disbursement and, as has been noted, initially these loans were very cheap in terms of the real interest rate. Price competition tended to force down margins and commissions as well.

The information presented in table 6 suggests that medium-term syndicated loans were extremely concentrated by borrower and that more detailed analysis need only concern a handful of sovereign borrowers, primarily from Latin America and Asia. There appear to be only four categories of developing country borrowers as defined by the volume of their borrowing in this market. In the first category are found Mexico and Brazil which individually account for almost 20% each of the value of all syndicated loans contracted by all developing country borrowers during the 1974-1982 period. The second or intermediate category would consist of borrowers in the 4% to 7% range and would include Argentina, Indonesia, the Philippines, Republic of Korea and Venezuela. The third category of countries, whose borrowing fell into the 2% to 3% range, is made up of Algeria, China, Hong Kong, Iran, Malaysia, Morocco, Nigeria, Peru, Taiwan Province, Turkey, and Yugoslavia. As regards this third category, the nature of their borrowing appears more volatile or concentrated in time as is indicated by the cases of Iran, Morocco and Peru. A fourth category would include countries such as Bolivia, Colombia, Cote d'Ivoire, Cuba, Ecuador, Egypt, Gabon, India, Iraq, Pakistan, Panama, Papua New Guinea, Singapore, Thailand, Trinidad and Tobago and Uruguay. Furthermore, if one were to

Table 6

INTERNATIONAL MEDIUM AND LONG-TERM SYNDICATED BANK LOANS
TO DEVELOPING COUNTRIES, BY PERIOD, 1974-1982 a/

(Annual averages in billions of 1980 US dollars) b/

	1974- 1977	%	1978- 1982	%	1974- 1982	%
<u>Latin America</u>	<u>10.2</u>	<u>58</u>	<u>21.7</u>	<u>57</u>	<u>16.6</u>	<u>57</u>
Mexico	3.2	18	7.6	20	5.6	19
Brazil	3.4	19	6.1	16	4.9	17
Venezuela c/	1.0	6	2.6	7	1.9	7
Argentina	0.8	5	1.9	5	1.4	5
Chile	0.1	1	1.3	3	0.7	2
Peru	0.6	3	0.4	1	0.6	2
Colombia	0.1	1	0.6	2	0.4	1
Panama	0.2	1	0.4	1	0.4	1
Ecuador c/	0.2	1	0.5	1	0.3	1
Bolivia	0.2	1	0.1	...	0.1	...
Uruguay	0.1	1	0.1	...	0.1	...
Trinidad and Tobago	0.1	1	0.1	...	0.1	...
Cuba	0.2	1	...	...	0.1	...
<u>Asia</u>	<u>5.1</u>	<u>29</u>	<u>10.8</u>	<u>29</u>	<u>8.4</u>	<u>29</u>
South Korea	0.9	5	2.5	7	1.8	6
Philippines	1.0	6	1.5	4	1.3	4
Indonesia c/	1.0	6	1.1	3	1.1	4
Hong Kong	0.3	2	1.1	3	0.8	3
Malaysia	0.3	2	1.2	3	0.8	3
China	-	-	1.0	3	0.6	2
Iran c/	1.0	6	0.3	1	0.6	2
Taiwan	0.4	2	0.5	1	0.5	2
Thailand	0.1	1	0.5	1	0.5	1
Pakistan	...	...	0.4	1	0.2	1
Iraq c/	0.1	1	...	...	0.1	...
Singapore	-	-	0.3	1	0.1	...
India	...	...	0.2	...	0.1	...
Papua New Guinea	...	...	0.2	...	0.1	...
<u>Africa</u>	<u>1.6</u>	<u>9</u>	<u>3.4</u>	<u>9</u>	<u>2.6</u>	<u>9</u>
Algeria	0.6	3	1.0	3	0.8	3
Nigeria c/	...	...	1.3	3	0.7	2
Morocco	0.5	3	0.5	1	0.5	2
Cote d'Ivoire	0.2	1	0.4	1	0.3	1
Egypt	0.2	1	0.1	...	0.2	1
Gabon c/	0.1	1	0.1	...	0.1	...

Table 6 (concl.)

	1974- 1977	%	1978- 1982	%	1974- 1982	%
<u>Others</u>	<u>0.7</u>	<u>4</u>	<u>1.9</u>	<u>5</u>	<u>1.4</u>	<u>5</u>
Yugoslavia	0.5	3	1.1	3	0.9	3
Turkey	0.2	1	0.8	2	0.5	2
<u>Total</u>	<u>17.6</u>	<u>100</u>	<u>37.8</u>	<u>100</u>	<u>29.0</u>	<u>100</u>
(OPEC subtotal)	(4.0)	(23)	(6.9)	(18)	(5.6)	(19)

Source: Calculated from OECD, Financial Market Trends, 27, Paris, 1984.

- a/ Criteria for inclusion were developing country status coupled with borrowings to equivalent of 1% of all borrowing by these countries in 1974-1977 or 1978-1982.
- b/ United States dollar values deflated by consumer price index for industrial countries.
- c/ Members of the Organization of Petroleum Exporting Countries (OPEC).

exclude from this group more countries in the syndicated bank loan market by excluding those countries whose commercial borrowing was minor (China, India, Pakistan, Egypt, Panama, Trinidad and Tobago, Indonesia, Iran and Iraq), one then finds that only about 26 were primarily TNB credit oriented. Of these 26, only seven could be said to have enjoyed anything like relatively unlimited and continuous access to the international capital market during the period. In other words, the borrowing side of the syndicated bank loan market was extremely concentrated in Mexico, Brazil, and a handful of other countries. From a regional perspective, the boom in sovereign lending to developing countries by way of syndicated bank loans was very much a Latin American phenomenon, with that region alone accounting for more than one-half of the total value of those loans.

Annexes similar to those referred to earlier based on data from debt reporter (DRS) system of the World Bank were prepared for these groups of debtors to demonstrate the concentration of the bank lending as well as its significance for the overall debt situation of these countries from both a stock and a flow perspective. Three of these borrowers (Hong Kong, Taiwan and Cuba) were eliminated as they do not participate in the DRS of the World Bank. Annexes 8 and 9 contain data on these countries, that is, those 24 countries which borrowed significant amounts from the syndicated bank loan market during the 1974-1982 period as reflected in an important bank participation in their external finances. Annexes 8 and 9 are directly comparable with annexes 6 and 7.

With regard to the stock of outstanding medium-term external public or publicly guaranteed debt, it turns out that transnational banks were far more important as financial intermediaries for the major borrowers, providing an increasing proportion of those resources --which rose from 35% in 1974 to 60% in 1982-- considerably above that of the 75 developing countries, in whose case the proportion rose from 24% to 46% over the same period. In this manner TNBs came to dominate the external accounts of these major borrowers, holding more than one-half of the public and publicly guaranteed debt as early as 1978.

Turning now to data on flows corresponding to the public and publicly guaranteed debt, a comparison of annexes 9 and 7 indicates that the 24 major borrowers accounted for 70% of all disbursements made to the developing countries during the boom in lending, and specifically with regard to bank financing, their share increased to the 86% range of all TNB disbursements made to the developing countries during 1974-1982. A consequence of this increased bank financing was a sharp rise in the principal repayments and interest payments for borrowers. The consequence of this greater role for TNBs in the external finances of the major borrowers was that the fall in TNB lending during 1983-1986 produced a negative net transfer overall. In other words, the concentration of bank credits in these countries following debt-based growth strategies held certain consequences in terms of the vulnerability and volatility of their balance of payments.

Annexes 10 and 11 provide information similar to that of annex 9 for the case of two countries whose external finances depended almost completely on credits from banks: Brazil and Mexico. These two countries were already well-established in the international capital markets in 1974, and, in fact,

the most expansive phase of combined borrowing of these two countries was the 1974-1978 period, before many other developing country borrowers became established in the international capital market and before either Brazil (1981) or Mexico (1982) entered into serious economic problems.

Public and publicly guaranteed debt came very much from banks. Whereas the 75 developing countries saw the bank share of their public and publicly guaranteed debt rise from 24 to 46% over 1974-1982 and the 24 major borrowers saw that share increase from 37 to 62% over the same interim, these two principal developing country borrowers witnessed the bank share of their public debt climb from 59 to 75% over that period. In this sense, the external finances of these two borrowers tended to become undimensional, with access to transnational bank financing becoming almost the sole determinant of their external finance.

The centrality of transnational bank financing is reflected in the flow data on the public and publicly guaranteed long-term debt of Brazil and Mexico presented in annex 11. The total disbursements of two countries corresponded to about 43% of those for the 24 major borrowers and about 28% of the developing country group during 1974-1982; however, when viewed in terms of bank disbursements only, the respective shares of Brazil and Mexico vis-à-vis the major borrowers and the 75 developing country group rises to around 51% and 43%, respectively. One noteworthy feature, nonetheless, is that although Brazil and Mexico were by far the most important developing country borrowers on the international capital markets during the boom period, 1974-1982, that dominance was greater in the first phase, 1974-1977, in comparison to the second one, 1978-1982, when new developing country borrowers gained access to that market.

The effect of this transnationalization of the external finances of Brazil and Mexico is also contained in annex 11 in so far as one refers to payments and net transfers. Principal repayments to banks as a proportion of total principal repayments rose from an average 65% during 1974-1977 to an average 81% during 1978-1982. Interest payments to banks went from 70 to 82% of the total interest payments over the same period. Finally, although annual average disbursements from banks rose by 59% between these two phases, the net transfer fell by 46%. The negative net transfer during the 1983-1986 period and its relation to the transnationalization of the external finances of these two countries requires no further commentary as the figures speak for themselves.

With the assistance of the information contained in table 7 it is now possible to draw some interesting general conclusions on the nature of the debt situation or the debt burden of the major developing country borrowers which followed debt-based growth strategies during the sovereign lending boom. One should keep in mind, again, that the World Bank DRS refers to only public and publicly guaranteed obligations in the calculation of debt burden indicators, that is, it excludes all unguaranteed loans, as well as all short-term loans from these calculations.

Table 7

DEBT BURDEN INDICATORS FOR PUBLIC AND PUBLICLY GUARANTEED
LONG-TERM DEBT, BY PERIOD

(Percentages)

Country/region	Overall debt			Debt with TNBs		
	1974- 1977	1978- 1982	1983- 1986	1974- 1977	1978- 1982	1983- 1986
I. DOD/GNP						
Brazil	11.8	17.4	32.9	7.4	12.3	24.4
Mexico	17.2	23.7	49.5	12.1	17.9	40.7
Other Latin America	15.4	21.8	45.4	4.9	11.7	28.7
Africa	15.1	24.2	32.3	5.8	13.6	16.8
Asia	14.8	20.3	32.4	3.6	8.3	14.8
24 major borrowers	13.7	20.0	36.9	5.9	11.4	23.1
II. DOD/XGS						
Brazil	146.6	192.7	264.2	91.6	135.8	195.4
Mexico	194.8	174.3	251.9	137.5	131.5	206.8
Other Latin America	72.3	84.6	189.6	23.0	45.0	119.9
Africa	49.8	87.9	151.5	19.4	49.2	78.4
Asia	37.3	43.9	64.6	9.2	17.8	29.6
24 major borrowers	73.1	90.8	143.4	31.5	51.5	89.8
III. INT/XGS						
Brazil	8.1	18.3	20.1	5.4	14.7	15.9
Mexico	13.3	17.8	24.4	9.7	14.6	20.3
Other Latin America	4.0	7.2	14.7	1.5	4.7	10.9
Africa	2.3	6.6	10.4	1.1	4.5	6.6
Asia	2.0	3.1	4.7	0.6	1.6	2.5
24 major borrowers	4.0	7.5	11.3	2.0	5.3	8.0

% Change by period	1978-1982/1974-1977				1983-1986/1978-1982			
	DOD (TNB)	GNP	XGS	INT (TNB)	DOD (TNB)	GNP	XGS	INT (TNB)
Brazil	90	16	30	257	41	-29	-2	4
Mexico	92	31	107	215	62	-30	1	39
Other Latin America	168	11	37	343	91	-21	-27	63
Africa	196	31	21	372	0	-18	-37	-5
Asia	221	42	65	357	70	-4	4	62
24 major borrowers	135	22	45	286	56	-23	-11	33

Source: World Bank, Debtor Reporting System.

DOD = Disbursed outstanding debt.

INT = Interest payments.

GNP = Gross national product.

XGS = Export earnings.

Basically, one can distinguish five particular debt situations which are those of Brazil, Mexico, other Latin America (nine countries), Asia (six countries) and Africa (five countries). Brazil and Mexico are treated separately in consideration of the magnitude of their debt with transnational banks; however, despite this similarity it is pertinent to distinguish the relative riskiness of their separate debt-based growth strategies. One can separate these two examples on the basis of their exposure to all creditors and, especially to transnational banks, as measured by the DOD/GNP indicator. Whereas Brazil was close to the major borrower group average on both counts, Mexico was considerably above the group average for the whole period and particularly during 1983-1986, when the Mexican indicator was 40% higher than the Brazilian one. The case of Mexico was thus clearly the riskier one in respect of exposure to transnational banks. A closer look at the figures for Brazil and Mexico suggests that, in essence, Brazil faced a denominator problem in this regard, that is, its GNP growth began to stall during the 1978-1982 period (and went into reverse during 1983-1986) and that accounted, to a large extent, in the worsening of the DOD/GNP indicator. Mexico faced more of a numerator problem, that is, it kept contracting foreign loans at what now can be clearly seen as an imprudent pace. That effect was compounded by the large amount of TNB debt restructured by way of the first agreement signed in 1983.

Similar to Brazil, the nine other Latin American major borrowers taken together faced very slow GNP growth and weak export earnings, especially during the 1980s. Similar to Mexico, many of these countries continued to contract huge volumes of TNB credit even after it became clear that their ability to service that debt had declined considerably, especially during 1983-1986. In that sense, these countries experienced the worst of all worlds as both the numerators and the denominators of their debt burden indicators reacted negatively. On top of that, TNB interest payments rocketed as their economic performance collapsed.

Although the five African major borrowers as a group faced a general debt situation not all that dissimilar to Brazil (in terms of their DOD/GNP indicator), their situation with regard to TNB debt was appreciably better than that of Brazil, Mexico and the other Latin American countries. The African major borrowers did not have much export success during the 1970s and their export earnings collapsed in the 1980s, however, the superior performance of their GNP and the fact that they stopped contracting TNB loans when the crisis began meant that their debt burden indicators were considerably better than the other groups, except Asia, and especially in so far as one focuses on the difficult 1983-1986 adjustment period. They seem to have reacted relatively better to the crisis.

The six Asian countries viewed as a group enjoyed the best debt burden indicators of all the major borrowers. Although they greatly increased their TNB debt, they did so from an extremely low base and at the same time enjoyed particularly favourable GNP and export earnings. The marked export orientation of most of these countries was an important element in their relatively superior debt situation. By all indicators, these Asian major borrowers taken together were considerably better off than the average for the 24 major borrowers. The Asian major borrowers managed well both the numerators and the denominators of their debt burden indicators.

It is not appropriate to evaluate major debtor country policies on the basis of regional aggregates; nonetheless, it is quite apparent that economic performance, as manifest in GNP growth, export expansion and relative openness to international trade, and moderate growth of TNB debt, are key features of the countries which had the least trouble adjusting to the scarcity of foreign capital which came about after 1982. Countries characterized by a mediocre economic performance and which followed a debt-based growth strategy which did not produce increased exports faced the worst of all worlds. Deficient or inadequate policies by some major borrowers were evidently important factors in the creation of the international TNB debt crisis. But the lending behaviour of TNBs was also another important factor.

C. The lending behaviour of TNBs

The boom in sovereign lending to developing countries, reflected an abrupt change in the behaviour of TNBs not only because it reestablished TNB lending to these countries after half a century of little activity but due to the fact that it represented a changed appreciation on the part of TNBs of the direction of the development of the global financial system. TNBs, in differing degrees, demonstrated that they were willing to take on a much increased role in international capital markets and that was apparent in the process of internationalization which they undertook. Their new behaviour reflected a new role for them which was much more than simply one of financial intermediary between OPEC capital surplus holders and capital deficit countries, it was the beginning of the TNB domination of international capital movements based not so much on OPEC surpluses as the dramatic development of the Eurocurrency markets. In this, TNBs found developing countries to be convenient clients during the 1974-1982 period.

During the post-war period, international lending had been dominated by official resource flows, especially bilateral loans and export credits and although some large international banks channeled many of these official resources, they did so primarily in a passive or secondary manner then justified by the tied nature of official bilateral lending and by the safety of home country guarantees. The principal activities of virtually all major banks were those located within their own particular national borders where markets were usually characterized as comfortable but highly regulated oligopolies in which foreign banks operated with considerable difficulty.^{12/} The expansion of direct foreign investment by United States and European transnational corporations did provoke large banks to establish or extend their international networks in order to service their national clients in other parts of the world and that practice, coupled with the deepening of the Eurocurrency market, provided strong incentives for the opening up of national financial markets (to allow in foreign banks) and the explosion of unregulated international lending. Home country policies of the dominant banks came to facilitate these developments.^{13/}

The stable, relatively closed oligopolistic structure of banking in the 1960s was destabilized by the explosion of TNB sovereign lending due to the fact that a relatively small group of mainly North American banks decided to actively seek out developing country clients in order to promote the

accelerated growth of their own assets during a difficult international conjuncture at the beginning of the 1970s. According to the report of the UNCTC: "This goal [accelerated growth of assets] led the North American banks to adopt financial policies that emphasized wide margins and large volume of loans. Because many developing countries offered both margin and volume growth in the mid-1970s, they became of prime interest to these banks. Banks from Europe and Japan, on the other hand, appeared to be much more sensitive to non-price considerations."^{14/} The United States leadership in TNB international lending, especially to developing countries, soon had a strong impact in the earnings from international activities of these banks, as by 1975, seven of the 10 largest United States banks derived more than 40% of their total earnings from international activities, whereas in 1971 only one did.^{15/} This soon brought a response from major non-United States banks and even many smaller, regional banks from the United States.

Previous to any examination of the nature of the explosion of international loans by TNBs it is useful to indicate certain outstanding characteristics of the global banking industry. First, viewed from the perspective of the total value of assets it is clear that banking is a very concentrated industry. During the 1970-1985 period about half of the value of the total assets of the 300 largest banks was concentrated in the top 50 banks and one third of that value was concentrated in the largest 25 banks (see annex 12). Furthermore, the assets of the 300 largest banks expanded rapidly during the 1970s when syndicated lending came to prominence and the average annual rate of growth of assets subsided considerably thereafter when that instrument fell out of favour, especially as a means of transferring resources to developing countries.

Secondly, although the concentration of the industry remained constant over the 1970-1985 period, there was considerable change taking place with regard to the nationality structure of those banks. Information on the nationality of the top 300 and the top 25 banks by assets (see annexes 13 and 14) demonstrates clearly that United States banks were increasingly challenged by other, especially Japanese, banks. Whereas the number of United States banks and the value of their assets as a per cent of total assets of the 300 largest banks dropped from an average of 71 banks and 23% during 1974-1977 to 53 banks and 18% during 1983-1985, the number of Japanese banks increased from an average of 55 to 64 and their percentage of total assets of the top 300 rose from 20% to 27% over the same period. If one takes into consideration only the top 25 banks, the challenge put to United States banks is even more evident. Over the three periods 1974-1977, 1978-1982 and 1983-1985 the United States banks saw their number in the top 25 drop consistently from six to four and their share of total assets fall from 29% to 18%. Japanese banks increased their presence during 1978-1982 and totally dominated the top 25 during 1983-1985. European banks came to account for almost half of the total assets of the top 25 during 1978-1982 but their presence was diminished by the surge in the value of the assets of Japanese banks thereafter. These general trends hold even after controlling for the individual national rates of inflation of the principal countries involved and the impact of exchange rate movements.^{16/} In essence, the United States banks dominated the 1974-1977 period, the non-United States banks in general came to the fore during the 1978-1982 period and the Japanese banks alone became prominent thereafter.

That trend is reflected in the information on the 25 top banks during the 1974-1985 period contained in table 8. With the exception of the presence of the French banks on the list (which is exaggerated somewhat by the impact of the national legislation of 1977-1978 which increased their capital and reserves by a multiple of four) ^{17/} both the growth rates and rank values conform to expectations for other nationalities of bank. United States banks, excepting Citicorp, had difficulty facing up to increased competition from European banks during 1978-1982 and particularly from Japanese banks during 1983-1985. Over the period as a whole, Japanese banks generally saw their assets expand at a real average annual rate of 10% or more whereas the rates for European banks were generally less than half of that for Japanese banks and United States banks as a group were close to zero real growth. Thus, although the global banking industry maintained its high degree of concentration over the 1974-1985 period, there took place a dramatic change in the nationality structure of the principal 300 and especially of top 25 of those banks. It is well to keep in mind that this information is based on total assets of these banks, that is, both national and international assets of which the former has traditionally been by far the most important for most, if not virtually all, large banks.

Large banks have not been equally active in lending internationally to developing countries, even so, available information on the most active banks suggests that many of the aforementioned general characteristics of the global banking industry also hold, with certain important exceptions, for international lending, especially via syndicated credits.^{18/} It should be mentioned that this section concentrates on TNB lending by way of syndicated credits because more information is available on that aspect of international bank lending. One should not forget that direct lending both short-term and non-guaranteed medium-term lending to the public and private sector of sovereign borrowers were also important aspects for which less information is available.

In general, the extremely concentrated nature of syndicated lending, as measured by capital mobilized by lead managers, was maintained over the period. Capital mobilized refers to the total value of the loans where organized by a single principal organizer and where organized by more than one manager, equal values are assigned to all co-managers. The top 10 lead managers mobilized about two thirds of the value of syndicated loans of the top 50 lead managers during 1976-1977 and 1983-1984; however, distinct from the situation for total assets during the all-important 1978-1982 period, the concentration of the organization of syndicated loans diminished appreciably in the sense that the top 10 lead managers mobilized less than one half of the total value of those syndicated credits (see annex 15). This is the first indication that, contrary to the concentrated structure by assets of the global banking industry during this period, the syndicated lending market experienced lessened concentration with regard to the organization of that kind of credit due to an increased competition among lead managers during 1978-1982. The re-concentration suggested for 1983-1985 is to an important degree a consequence of involuntary syndicated credits associated with the formation of bank advisory or steering committees for sovereign borrowers for debt restructuring purposes (although merger-related activities in the United States were also important).

Table 8

RANKING OF THE PRINCIPAL 25 BANKS, BY ASSETS, ^{a/} 1974-1985

(In billions of 1980 US dollars, percentage and rank values)

Ave. value assets 1974-1985	Bank	Country	Real average annual growth ^{b/} 1974-1985	Rank value ^{c/}		
				1974- 1977	1978- 1982	1983- 1985
102.2	Citicorp	USA	3.1	2	2	1
100.9	BankAmerica Corp.	USA	-1.2	1	1	4
86.8	Credit Agricole ^{a/}	France	2.1	3	4	9
82.9	Banque Nationale de Paris	France	4.4	6	3	7
75.8	Credit Lyonnais S.A.	France	3.9	7	5	10
74.1	Dai Ichi Kangyo Bank, Ltd.	Japan	11.2	10	9	2
72.6	Deutsche Bank	Germany (FR)	2.3	5	6	16
69.9	Societe Generale S.A.	France	4.4	8	7	13
67.5	Fuji Bank Ltd.	Japan	11.8	14	12	3
67.4	Barclays Bank Ltd.	United Kingdom	1.9	9	8	12
66.8	Chase Manhattan Corp.	USA	0.9	4	11	17
65.9	Sumitomo Bank Ltd.	Japan	11.0	15	13	5
64.2	Mitsubishi Bank	Japan	10.5	16	14	6
63.3	National Westminster	United Kingdom	3.5	13	10	11
60.6	Sanwa Bank Ltd.	Japan	10.5	19	15	8
55.7	Morinchukin Bank ^{a/}	Japan	n.d.	25	19	14
55.1	Dresdner Bank	Germany (FR)	2.5	12	16	26
50.0	Banco do Brasil	Brazil	0.1	11	20	38
49.9	Midland Bank Group	United Kingdom	4.6	28	17	18
49.6	Industrial B. of Japan Ltd.	Japan	10.7	26	21	15
49.0	Manufacturers Hanover	USA	2.5	17	23	22
48.0	West Deutsche Landesbank	Germany (FR)	0.5	18	18	41
47.1	Royal Bank of Canada	Canada	3.4	22	22	25
45.3	Tokai Bank Ltd.	Japan	9.2	31	27	19
44.8	J.P. Morgan & Co. Inc.	USA	1.5	20	28	31

Source: Calculated from The Banker, various issues.

^{a/} Assets less contra accounts converted to dollars at year-end exchange rates by The Banker. ^{b/} Calculated on 1980 values using consumer price deflator for industrial countries, according to IMF, International Financial Statistics data. ^{c/} Calculated from real average annual values for each period.

The nationality structure of the principal banks organizing syndicated credits evolved in similar fashion as was the case for the assets of the 300 principal banks. United States banks dominated the situation in 1976-1977 after which they suffered increased competition from non-United States banks (see annex 16). During the first period, this information suggests that United States banks, which mobilized over one half the value of these syndicated loans, were by far the prime organizers of this new instrument, although British (16%), German (16%) and consortium banks (6%) also played an important role. Japanese banks played no role at all during this initial period. The second phase, 1978-1982, saw a sudden growth in non-United States bank organization of syndicated credits, especially Canadian (13% of capital mobilized), Japanese (9%), French (5%) and others (8%). Although United States and United Kingdom banks continued to dominate as lead managers their dominance along with that of consortium banks was significantly diminished during 1978-1982 as competition increased for the lead manager positions.

Table 9, which indicates the ranking of individual lead managers for the 1976-1982 period, supports the conclusions drawn in the previous paragraph yet also points to an important difference. With few exceptions the organization of syndicated credits is heavily concentrated in the hands of the biggest banks, 15 of the 25 principal lead managers belong to the category (see table 8) of the 25 biggest banks by assets in table 8. Although there was a considerable rise in lead managing by non-United States banks during the boom period, 1978-1982, the United States lead managers (five of which are among the 25 largest banks by assets) were not dislodged from their positions as the five principal lead managers and six of the top 10 lead managers during that period. Furthermore, unlike the situation of the principal banks by assets, the Japanese banks did not come to the fore and only the Bank of Tokyo (not on the list of the 25 principal banks by assets) assumed importance in the organization of syndicated loans during the 1978-1982.^{19/} Thus, although the organization of syndicated credits was generally very concentrated and the large United States banks suffered stiff competition from non-United States banks over this period (as was the case for the global banking industry as a whole as measured by assets) there are certain specific features of the situation of the principal lead managers which deserve attention, such as the fact that the increased competition to place international loans and act as lead managers in their syndication did not dislodge the largest of the United States (and to a lesser extent, United Kingdom) banks from their dominance in this field and the increased presence of Japanese banks in terms of assets did not translate into an important increase in their organization of syndicated credits. However, as shall become more evident after analysing information from the case studies (chapter II), these kinds of conclusions must be interpreted with caution due to the fact that data on capital mobilized relates to all syndicated credits of which only about one-half during 1978-1982 corresponded to sovereign lending to developing countries (as table 3 indicated). Most of these same banks were involved in high volume syndicated lending both to large transnational corporations (especially for merger-related activities in 1981) and industrial countries, something which could distort any interpretation of this information in so far as behavioural tendencies for syndicated lending to developing countries is concerned. Furthermore, analysing TNB behaviour by nationality alone obscures interesting and significantly distinct behavioural patterns of many of the members of the dominant group of lead managers.

Table 9

RANKING OF THE PRINCIPAL 25 BANKS ORGANIZING SYNDICATED CREDITS,
BY VOLUME OF CAPITAL MOBILIZED,a/ 1976-1982

(In billions of 1980 US dollars and rank values)

Total capital mobilized 1976-1982	Bank	Country	Rank value <u>c/</u>	
			1976- 1977	1978 1982
57.4	Citicorp <u>*/</u>	USA	1	1
52.7	Chase Manhattan <u>*/</u>	USA	2	2
35.1	Bank America Corp. <u>*/</u>	USA	4	3
32.8	J.P. Morgan & Co. Inc. <u>*/</u>	USA	3	4
25.7	Manufacturers Hanover <u>*/</u>	USA	8	5
22.5	National Westminster <u>*/</u>	United Kingdom	10	8
21.3	Lloyds Bank Ltd.	United Kingdom	12	9
21.3	Bank of Montreal	Canada	25	7
20.7	Bank of Tokyo Ltd.	Japan	-	6
18.8	Bankers Trust N.Y. Corp.	USA	7	10
18.0	Deutsche Bank <u>*/</u>	Germany (FR)	6	12
16.8	Royal Bank of Canada <u>*/</u>	Canada	13	11
15.0	West Deutsche L.B. <u>*/</u>	Germany (FR)	11	14
14.3	Chemical N.Y. Corp.	USA	9	15
13.6	Dresdner Bank <u>*/</u>	Germany (FR)	5	19
13.4	Barclays Bank <u>*/</u>	United Kingdom	15	16
13.2	Midland Bank Group <u>*/</u>	United Kingdom	18	17
12.9	Cdn. Imperial Bank of Commerce	Canada	-	13
11.7	Credit Lyonnais <u>*/</u>	France	20	13
10.7	Toronto Dominion Bank	Canada	17	22
10.1	Commerzbank A.G.	Germany (FR)	14	23
8.9	Bank of Nova Scotia	Canada	-	20
8.8	Industrial Bank of Japan <u>*/</u>	Japan	-	21
7.4	Banque Nationale de Paris <u>*/</u>	France	-	24
6.5	Long Term Credit Bank	Japan	-	25

Source: Calculated from Euromoney, various issues.

a/ Full amount of loan apportioned to sole lead manager and equal amount to each co-lead manager.

b/ Calculated on 1980 values in United States dollars, deflated by CPI for industrial countries.

c/ Based on real annual average values for each period.

*/ Among the top 25 banks by assets.

That being said, some relevant behavioural characteristics can be derived from the comparison of tables 8 and 9 in the context of the commentaries made in the analysis of each. The principal 25 banks organizing syndicated credits can be subdivided in three separate groups: i) the five big United States banks (Citicorp, Chase Manhattan, BankAmerica Corp., J.P. Morgan & Co. Inc. and Manufacturers Hanover) which dominated syndicated lending, accounting themselves for over 40% of the total volume of capital mobilized by these 25 banks; ii) the 10 other big banks on the list of principal organizers which are also on the list of principal banks by assets (National Westminster, Deutsche Bank, Royal Bank of Canada, West Deutsche L.B., Dresdner Bank, Barclays Bank, Midland Bank Group, Credit Lyonnais, Industrial Bank of Japan and Banque Nationale de Paris); and iii) the 10 banks on the list of principal organizers which do not appear among the principal banks by assets (Lloyds Bank Ltd., Bank of Montreal, Bank of Tokyo Ltd., Bankers Trust N.Y. Corp., Chemical N.Y. Corp., Canadian Imperial Bank of Commerce, Toronto Dominion Bank, Commerzbank A.G., Bank of Nova Scotia and Long Term Credit Bank). This suggests that though there was a group of very big banks which were the clear leaders in the organization of syndicated credits, one can distinguish a group of very big banks which were relatively less active in the organization of such credits and a group of relatively more active not-so-big banks. For the sake of convenience, these three groups of banks are called the leaders, the followers and the challengers, respectively.

With regard to the motivations behind distinct behavioural tendencies it can be said that during the first period of the sovereign lending boom, 1974-1978, all participants in these syndicated credits enjoyed high interest income from the wide spreads over base interest rates charged to developing country borrowers, and the few organizers ^{20/} also enjoyed high commissions on top of any participation they took in those credits. This good income acted as a strong incentive for new entrants into the syndicated loan market, which averaged 65-70 per year between 1973 and 1980.^{21/} The significant commission income available to the lead managers capable of organizing these new entrants into syndicates provided an incentive for banks which already possessed an international presence to mobilize large syndicated credits and, in this sense, to challenge the leaders which had dominated the organization of these credits. This naturally resulted in much increased competition to organize and place syndicated credits with developing countries which in turn produced a tendency for individual loan volumes to increase sharply and for spreads (and to a lesser extent, commissions) to narrow significantly during the high cycle of sovereign lending as of 1978. A kind of price war among TNBs was the consequence, something which stimulated borrowers to request ever-increasing volumes of syndicated credits and caused lenders to seek out an ever-widening circle of clients. This differential behaviour of TNBs —especially in so far as it was captured by the categories of leaders and challengers— would have an important influence on the debt crisis which followed the collapse of syndicated lending to developing countries.

The inability of Mexico to meet its external obligations in August of 1982 has generally been taken as the event and the date which separated the period of primarily "spontaneous" bank lending, that is, voluntary lending to developing countries in accordance with market conditions, from the period of

primarily "concerted" bank lending, that is, mostly involuntary lending to developing countries with debt problems, usually in the context of IMF-administrated adjustment programmes and TNB debt reprogramming agreements designed and administrated by bank steering committees. Transnational bank lending to developing countries fell by one half on average from US\$43 billion a year during 1978-1982 to US\$18 billion during 1983-1986 which meant that bank loans as a percentage of resources received by developing countries fell from 36 to 21 (see table 1). The syndicated bank loan lost its importance as a principal instrument (compared to international bond issues) for raising capital on international markets, falling from 58% to 21% of the total raised (see table 2) and the developing countries' share of the overall amount raised through the use of that instrument also fell from 42% to 21% over the same period (see table 3). The Latin American region saw its share of the syndicated loans contracted by developing countries fall from 61% to 15% (see table 5). For the developing countries generally the 1983-1985 period was characterized by a steep decline in bank lending combined with a sharp rise in deposit taking from those countries which resulted in a net transfer of resources abroad (see table 4), even without considering the payment of the external debt during this period.

The medium-term public and publicly guaranteed external debt of the 75 developing countries which had access to international bank credits rose from US\$337 billion to US\$479 billion in constant 1980 values between 1982 and 1986 (42%); however few significant changes took place in the structure of that external debt. With regard to creditors, the debt held by official ones fell from 45% to 42% between 1980 and 1986, thereby making it for the first time smaller than that held by banks alone, which reached 48% of the total in 1986 (see annex 6). Those changes resulted in the fact that the average annual net transfer from TNB loans fell from around US\$12 billion during 1978-1982 to a net outflow of US\$8.2 billion over the 1983-1986 period (see annex 7).

Most of that transfer problem created for the developing countries fell on the shoulders of the 24 major borrowers discussed earlier. Their public and publicly guaranteed debt rose from US\$225 to US\$326 billion. Their debt to official creditors fell to about one quarter of the total long-term public and publicly guaranteed debt and that to transnational banks alone grew to almost two thirds of the total (see annex 8). The average annual net transfer from TNB loans dropped from US\$10 billion during 1978-1982 to a net outflow of US\$8.9 billion during 1983-1985, thereby creating grievous payments difficulties for these major borrowers (see annex 9). All in all, by the end of 1982, 34 countries were in arrears on their external debt.^{22/} On top of the liquidity crisis of Eastern Europe came the debt crisis of Latin America and that produced a kind of crisis of confidence in the interbank market which became manifest in the sharp decline in transnational bank lending to developing countries in the period which followed.^{23/} Over the next three years about US\$183 billion of outstanding debt with TNBs was rescheduled by developing countries experiencing balance-of-payments difficulties and by the end of 1986, 57 developing countries had outstanding external arrears.^{24/}

In hindsight, it is clear that during the boom in sovereign lending the banks, especially the bigger ones, placed an excessive amount of credit in many developing countries. Once the debt service problems of some of the more

important borrowers became apparent, the TNBs quickly and severely reduced their previous levels of lending. Both of these actions exaggerated the boom and bust phases of the bank: developing country relationship and this procyclical behaviour contributed directly to the genesis and prolongation of the debt crisis. That the TNBs placed an excessive amount of external credit in developing countries during the boom, 1974-1982, is not difficult to demonstrate. For example, an IMF document asserts that "Banks continued to expand their lending to countries pursuing inappropriate policies for several reasons. In particular, they underestimated the risk associated with sovereign lending and were not sufficiently forward-looking in their evaluation of creditworthiness. The balance sheet ratios of commercial banks deteriorated substantially during the years preceding the spread of sovereign debt problems".^{25/} The Economist had even harsher words for the banks in this regard: "In fact the banks have nobody but themselves to blame for many years they lent on risks that were known to be bad ..." ^{26/} and "Bankers lent like madmen to LDC borrowers in the run-up to August 1982, unprepared for the third world debt crisis because it had been almost half a century since sovereign government had last defaulted on their debts".^{27/} These commentaries differ considerably in emphasis in the sense that the first suggests that the TNBs suffered a kind of technical failure with regard to their risk assessment and creditworthiness evaluation abilities whereas the second seems to indicate that the problem had more to do with a character flaw. Taking into account the unregulated status of this sovereign lending market and its oligopolistic nature, it can be argued that transnational banks most probably did not efficiently assign resources. In fact, when the market was relatively less open, it would probably be reasonable to suppose that banks were underlending, with the major transnational banks using their market power to obtain monopoly rents, as appears to be the situation during the early to mid-1970s. As the market became more unstable due to the sharp increase in new entrants (lenders) it could be argued that the ensuing price war for syndicated credits to developing countries resulted in a situation of excess lending, as would seem to have been the situation in the late 1970s and early 1980s.^{28/} The force of stiff price competition presumably made different categories of banks behave in distinct manners.

In order to maintain earnings, the leaders, with high exposures in the more creditworthy sovereign borrowers, very well might have opted for a more perilous strategy of placing loans with riskier countries, with riskier clients (for example, non-guaranteed private sector ones) in the same countries where they were already overexposed or entering new riskier areas of financial intermediation in the international capital market. The challengers might have sought to keep their income up by organizing evermore syndicated loans for the more creditworthy sovereign borrowers, compensating for lower commissions and fees on each transaction by raising higher volumes via the incorporation of more newcomers as participants. These smaller new entry banks were interested in participating in these syndicated loans in order to diversify their existing national loan portfolios and to break into the ranks of the international banks, then considered very prestigious. This situation thereby would have resulted in the accommodation by banks of the apparently insatiable demand for external resources demonstrated by the sovereign borrowers as spreads narrowed and commissions fell. The natural consequence of such market behaviour, characterized as it was by excessive

and imprudent lending as well as exaggerated borrowing, would be the debt crisis.

It has been argued by many that the debt crisis partly owes its origin to the failure of the risk assessment and creditworthiness evaluation abilities of TNBs in general. Several appreciations of TNB abilities in these fields have, in fact, suggested that the TNBs were very deficient in this regard.^{29/} Building on these findings, a more general hypothesis affirms that banks tended to assume excessive exposure to insolvency due to "disaster myopia".^{30/} According to this concept, negligible barriers to entry into the international syndicated loan market resulted in the erosion of returns to lenders over time. To maintain earnings banks either had to forgo the collection of an uncertainty premium for bearing exposure to a major shock of low, but unknown, probability and/or allow their capital positions to decline and/or their exposure to funding shocks to rise. In this sense, increased competition to place syndicated credits with developing countries resulted in a systematic tendency on the part of the transnational banks to underestimate certain shocks of low or unknown probabilities, especially transfer and funding shocks.^{31/} In this competitive context, it is extremely difficult for any one individual bank to adopt more prudent policies while others do not also adopt them. Disaster myopia, apparently, can only be effectively avoided through more complete bank supervision at the national level and not through the prudent initiatives of individual banks. It is the system more than the participants which is at fault, according to this view. Put in the context of the previous analysis of the market dynamics this disaster myopia could well be more associated with the behaviour of all the principal organizers but most especially the challengers during the high cycle of sovereign lending.

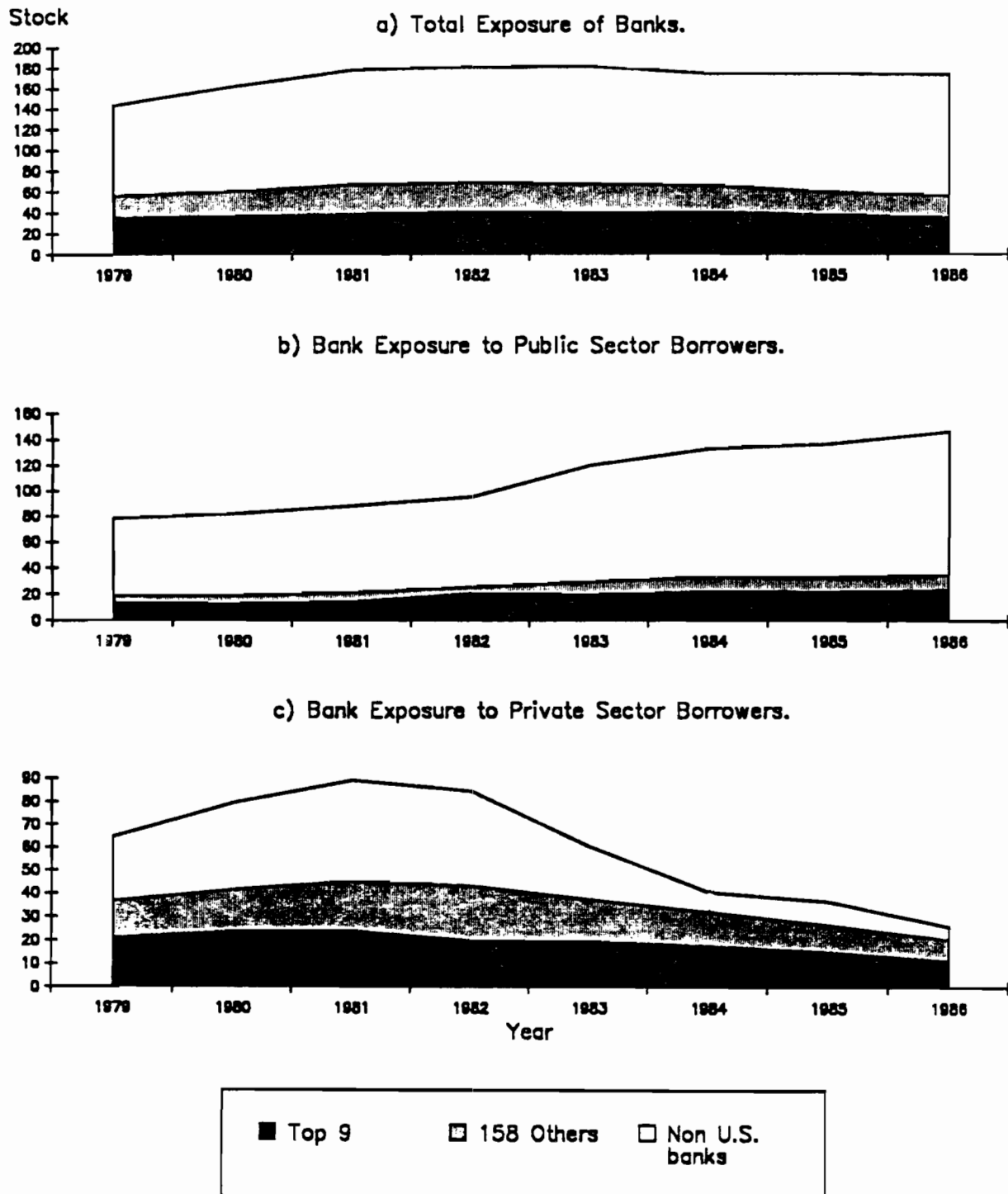
Another point of view suggests that the excessive lending during the boom was as much a result of the flawed character of some of the major banks as any possible technical failure on the part of banks or their supervisors. It suggests that they acted deliberately in the sense that they "advanced" loans to inexperienced sovereign borrowers through their promotional efforts. As one study on the subject maintains,^{32/} this amounts to the placing of loan packages with borrowers traditionally denied access to international credit markets altogether or who were at least denied such large amounts of funds. The developing countries risk characteristics, which presumably were responsible for their previous exclusion from easy credit terms, remain unchanged but suddenly these potential borrowers find creditors clamoring for their attention. They persuaded borrowers to agree to credits although those borrowers had no initial thoughts of borrowing or, at least, not such large volumes. The experience of one loan officer is of significance for this argument. He stated that: "In international lending, American banks frequently violate the oldest precepts of lending against security. As a domestic credit analyst, I was taught to develop reasonable asset security for all loans unless the borrower was of impeccable means and integrity. As an international loan officer, I was taught to forget about that, and instead to develop a set of rationales that would make the home office feel good about the loan, even though, technically, it was 'unsecured'."^{33/} This statement not only reflects badly on the risk assessment and creditworthiness evaluation abilities of the major transnational banks, one is led to the conclusion that some knowingly organized bad quality but high

profit foreign loans. Put in the context of the previous analysis of the sovereign lending market dynamics during the boom, this tendency might be more clearly associated with the behaviour of some of the leaders.^{34/}

Information collected on the overall exposure of creditor banks which report to the Bank of International Settlements (BIS) in Basle, Switzerland, throws some interesting light on this behaviour of the major United States banks when combined with information on the public and publicly guaranteed debt held by financial institutions which is collected by the World Bank Debtor Reporting System. The BIS presents a rather comprehensive series on the overall exposure (that is, the exposure from all lending not only syndicated medium-term lending to the public sector) of BIS-reporting banks to individual developing country debtors. The Federal Financial Institutions Examination Council of the US Federal Reserves offers similar information for US banks and it even distinguishes the exposure of the top nine US banks as a group (that is, the five leaders, two challengers and two others) as well the sectoral nature of exposure (that is, public or private sector). By introducing the World Bank Debtor Reporting System information on the public and publicly guaranteed medium-term debt of individual debtor countries, it is possible to derive a public sector/private sector breakdown of exposure of the United States and non-United States banks. Obviously, the combination of these distinct data series is not perfect, nonetheless, it does permit one to derive approximations for the different kinds of bank exposure over the 1979-1986 period.^{35/}

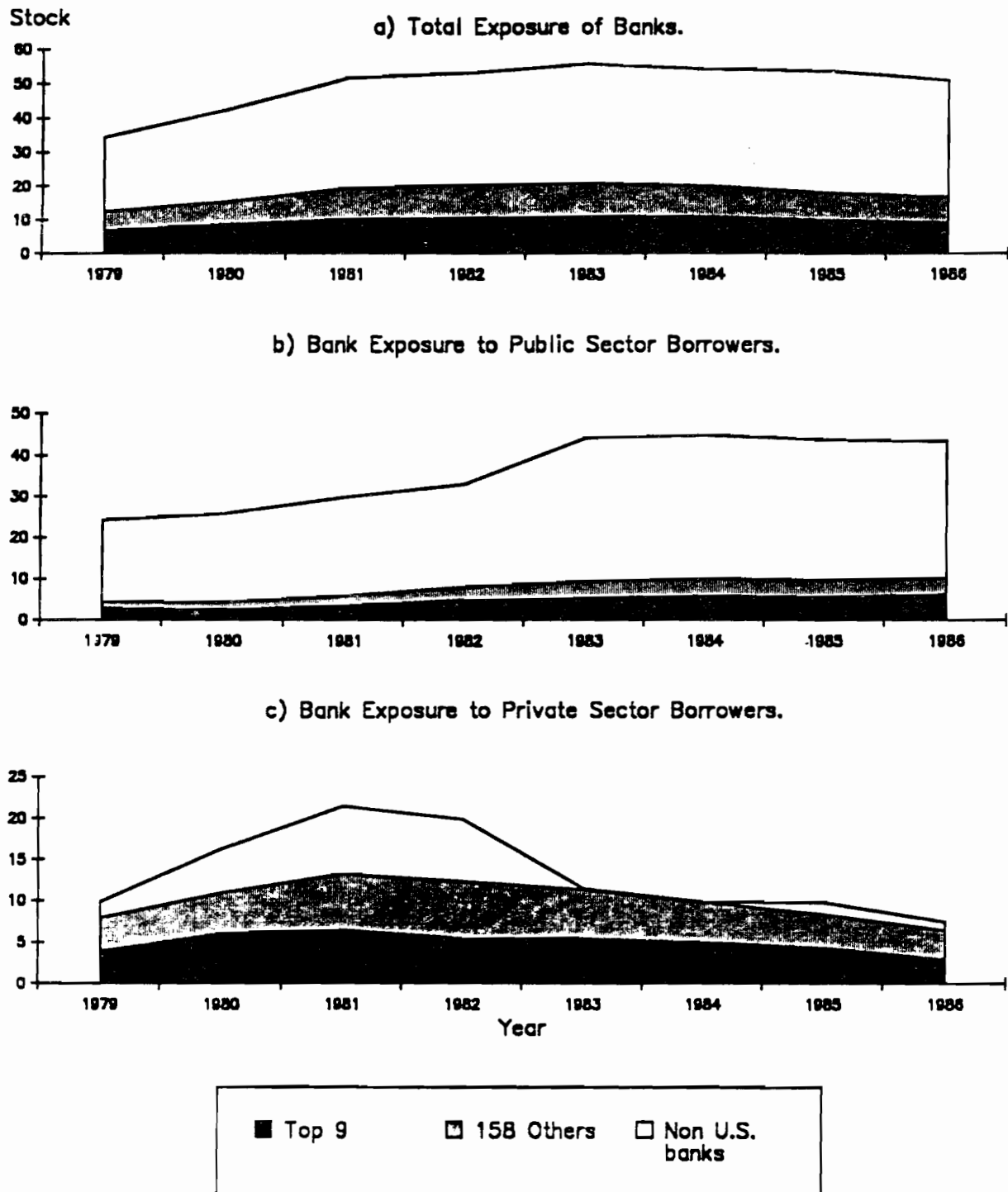
Figures 2 through 4 provide the relevant information for the Latin American countries and the individual cases of Mexico and Brazil, the two largest debtors. These lay the framework for the analysis of the six case studies presented in the next chapter. A comparison of figure 2.a) indicating the exposure of BIS reporting banks to public sector borrowers in Latin America to figure 2.b) which shows their exposure to private sector borrowers in those countries makes it manifest that even during the boom United States banks, especially the top nine United States banks, had already built up exceptionally large exposures to these countries and their exposure was primarily with private sector borrowers, whereas the exposure of the non-United States banks was principally with public sector borrowers. Because the top nine group of United States banks is heavily weighted by the five leaders, it seems reasonable to conclude that these data support the hypothesis that during the boom the leaders lent increasingly to riskier unguaranteed clients in the private sector. During the crisis period both United States and non-United States banks rapidly reduced their exposures to private sector borrowers --flows were negative after 1982-- in some cases transferring part of that exposure to the public sector via restructuring agreements. Unfortunately, it was not possible to separate out distinct items of the private sector exposure, such as short-term trade credits (with or without home country guarantees from official export promotion institutions) or interbank lines of credit, or medium-term direct credits. It

Figure 2

LATIN AMERICAN COUNTRIES: EXPOSURE OF BANKS BY SECTOR^a*(Billions of 1980 U.S. dollars)*

1/ Top 9 + 158 Others = Total U.S. banks.

Figure 3
MEXICO: EXPOSURE OF BANKS BY SECTOR^a
(Billions of 1980 U.S. dollars)

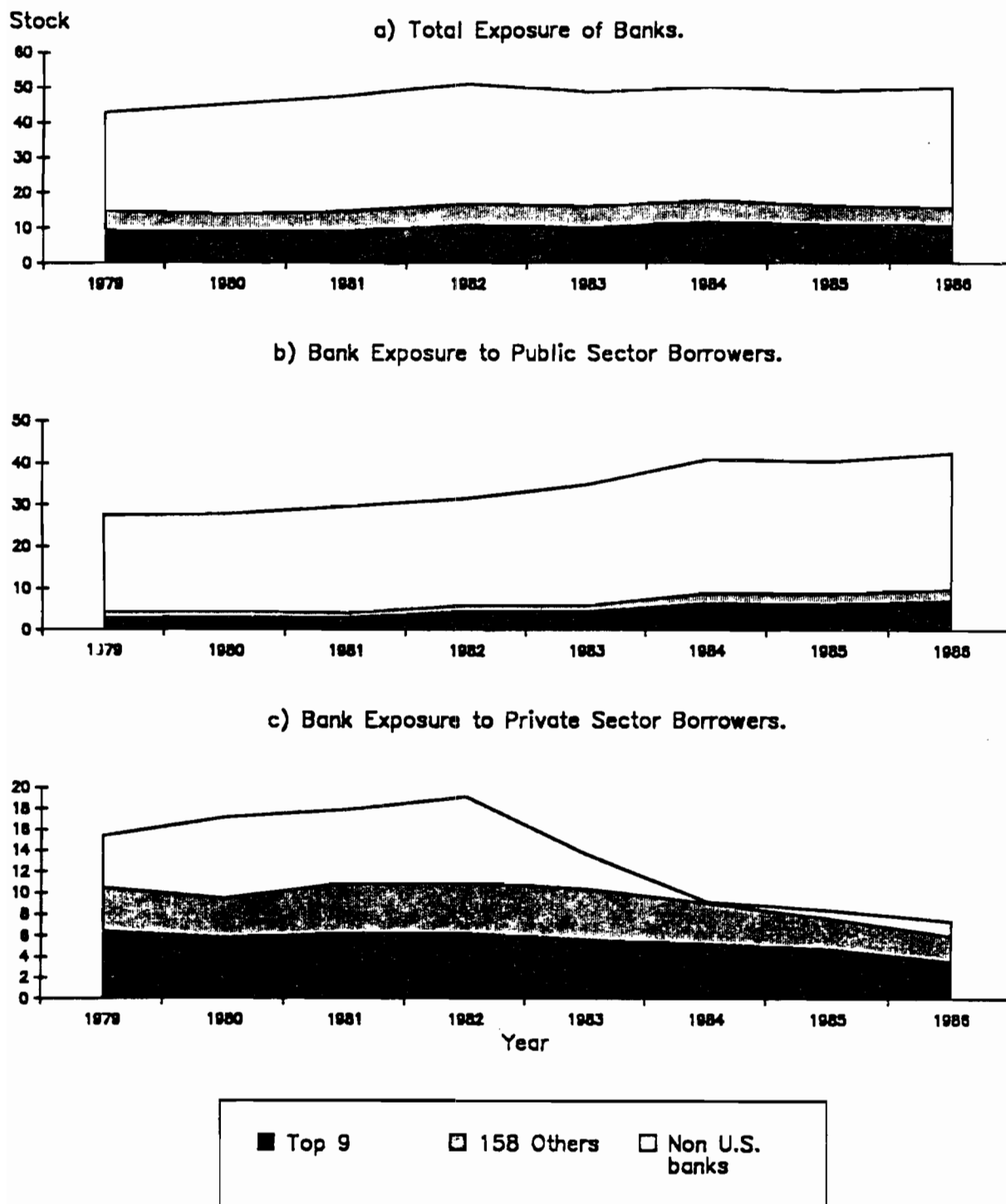


1/ Top 9 + 158 Others = Total U.S. banks.

Figure 4

BRAZIL: EXPOSURE OF BANKS BY SECTOR^a

(Billions of 1980 U.S. dollars)



1/ Top 9 + 158 Others = Total U.S. banks.

is thought that non-United States bank exposure to the private sector was of a short-term nature and with a higher proportion carrying guarantees whereas the United States bank exposure was more in the nature of a non-guaranteed medium-term direct loan. Perhaps for this reason the non-United States banks were more willing than United States banks (especially the smaller ones) to extend their overall exposure by lending to public sector borrowers, after the crisis began. Simply put, the impact of United States bank behaviour was more procyclical and therefore less accommodating for debtors during the crisis.

Figures 3 and 4 tell a similar story for the cases of Mexico and Brazil, that is, during the boom the United States banks, most notably the top nine United States banks, had built up a larger exposure to private sector borrowers, whereas the non-United States banks concentrated more on presumably safer public sector clients which offered a State guarantee to the lenders. During the crisis, the change in exposure was relatively similar in that lending to the private sector collapsed, however, the fact that the Mexican exposure was somewhat greater and that "other" United States banks played a larger role meant that the credit crunch was more profound in that country in comparison to Brazil. In terms of the contribution to the new money facilities of the debt restructuring packages the non-United States banks were considerably more liberal than the United States banks, especially in the case of Mexico. Within the category of United States banks the top nine were more willing to contribute than the other United States banks, most notably in the case of Mexico; however, it should be noted that the other United States banks made a significant contribution to the 1984 restructuring package put together for Brazil. The information for Mexico and Brazil confirms that the top nine United States banks were very exposed in these countries. The leaders, as table 10 demonstrates, had exposures in these two countries (combined), which exceeded the value of their primary capital. Numerous United States banks were overexposed in these two cases according to the rules of the United States Interagency Country Exposure Review Committee (ICERC). Those rules state that the maximum exposure to any one borrower was generally not to exceed 10% of a bank's capital.^{36/} Moreover, the principal United States banks' behaviour differed considerably from non-United States banks in the sense that during the boom they were more exposed to riskier unguaranteed clients in the private sector and during the crisis they were less well-disposed to contribute to new money facilities. These principal United States banks demonstrated the most procyclical behaviour of all banks, both during the boom and during the crisis.

The inability of the debtor countries to meet their external financial obligations with banks resulted in the formation of bank advisory committees or steering committees for the discussion and administration of the reprogramming of capital payments and the possible placing of new bank resources to cover a portion of outstanding interest due. For the cases of Brazil and Mexico, by far the biggest developing country sovereign debtors, these committees were completely dominated by the leaders as table 11 indicates. Seven United States banks (the five leaders plus two challengers) form part of these committees and in each case Citicorp is the principal coordinating agent or chairman and another of the leaders is a co-chairman. Moreover, of a total of 27 positions on these combined committees United States banks controlled 14, as well as four of the six chairman posts

Table 10

THE TOP FIVE US BANKS ACCORDING TO THEIR EXPOSURE a/ IN THE TWO
PRINCIPAL DEVELOPING COUNTRY DEBTORS, END-1982

(Millions of US dollars and percentages)

Capital b/	Bank	Brazil	Mexico	Total	Exposure as % capital
5 989	CITICORP	4 402	3 270	7 672	128
4 799	BankAmerica	2 299	2 500	4 799	100
4 221	Chase Manhattan	2 402	1 688	4 090	97
3 107	J.P. Morgan & Co.	1 687	1 081	2 768	89
2 592	Manufacturers Hanover	2 014	1 729	3 743	144
20 708	Total top nine US Banks	12 804	10 268	23 072	111
	As % total all US Banks c/	59	42	50	
	As % total BIS-reporting banks d/	21	17	19	

Source: Calculated from information contained in Cline, W.R., "International Debt and the Stability of the World Economy", Policy Analysis in International Economics, 4, Institute for International Economics, Washington, D.C., September 1983, table 6, p. 34, from Bank for International Settlements, The Maturity Distribution of International Bank Lending, second half 1983, Basle, July 1984, p. 6 and Federal Financial Institutions Examination Council, Statistical Release: Country Exposure Lending Survey, December 1982, Washington, D.C., 1 June 1983, table 1, p. 2.

a/ Includes all cross-border loans in foreign currency.

b/ The sum of shareholders equity, subordinated notes, and reserves against possible loan losses.

c/ Fully consolidated data covering 171 banking organizations. Data cover cross-border and non-local currency lending and have been adjusted to reflect guarantees and indirect borrowing.

d/ Aggregated external positions of banks located in Austria, Australia, Belgium, Luxembourg, Canada, Denmark, France, Germany (Federal Republic of), Ireland, Italy, Japan, Netherlands, Switzerland, United Kingdom, United States plus some of their affiliates domiciled in financial centres (Bahamas, Caiman Islands, Panama, Hong Kong and Singapore).

Table 11

TRANSNATIONAL BANK STEERING COMMITTEES FOR BRAZIL
AND MEXICO DURING 1980s

Bank and group	Nationality	Brazil	Mexico	Totals	
				Members	Co-ordinator
I. <u>Leaders</u>		<u>5</u>	<u>5</u>	<u>10</u>	<u>2</u>
Citicorp	US	xxx	xxx	2	2
BankAmerica	US	x	xx	2	
Manufacturers Han.	US	x	x	2	
Chase Manhattan	US	x	x	2	
J.P. Morgan	US	xx	x	2	
II. <u>Challengers</u>		<u>5</u>	<u>5</u>	<u>10</u>	<u>-</u>
Bank of Tokyo	Japan	x	x	2	
Chemical Bank	US	x	x	2	
Bank of Montreal	Canada	x	x	2	
Bankers Trust	US	x	x	2	
Lloyds Bank	UK	xx	x	2	
III. <u>Followers</u>		<u>2</u>	<u>1</u>	<u>3</u>	<u>-</u>
Deutsche Bank	FRG	x	x	2	
Credit Lyonnais	France	x		1	
IV. <u>Others on Committee</u>		<u>2</u>	<u>2</u>	<u>4</u>	<u>-</u>
Arab Banking Corp.	Other	x		1	
Union B. of Switzerland	Other	x		1	
Swiss B. Corp.	Other		xx	1	
Société Générale	France		x	1	
<u>Total</u>		<u>14</u>	<u>13</u>	<u>27</u>	<u>2</u>
<u>Distribution by nationality</u>					
United States (US)		7	7	14	2
Japan		1	1	2	-
Canada		1	1	2	-
United Kingdom (UK)		1	1	2	-
F.R. Germany (FR)		1	1	2	-
France		1	1	2	-
Others		2	1	3	-

Source: ECLAC/CTC Joint Unit.

x = Member of committee.

xx = Co-chairman.

xxx = Co-ordinating agent/chairman.

dominated by banks from the leader category. Those banks were far more influential in these committees than all the others. This dominance of the steering committees of Mexico and Brazil by the leaders was to have some unfavourable consequences for those debtors. It now seems clear that the United States banks, especially the leaders, used their control of the bank steering committees to obtain particular advantages vis-à-vis non-United States banks, smaller United States banks and, most particularly, the debtor countries themselves.

The bank steering committee members enjoyed high fee (and interest) income during the first phase of the debt restructuring process, 1982-1984. More importantly, at the cost of a minor expansion of their existing exposures in the form of new money facilities, these banks were sometimes able to greatly increase the security of their (greater) exposure to private sector borrowers (mostly in the form of direct loans and short-term credit) by having them incorporated in one manner or another into the debt restructuring agreements, thereby acquiring a State guarantee in an ex-post facto manner. Furthermore, these restructuring agreements often had the effect of grouping all local debtors into one category and assigning debt service to the State. This meant that the riskier unguaranteed clients (to which were undoubtedly charged a higher rate of interest on their original loans) of the leader banks were suddenly of equal legal status as the more creditworthy clients of the same country. Thus, it seems that the leaders used their domination of the bank steering committees to gain particular advantage in terms of greater security for their more risky exposure and an improved income stream from fees and punitive interest rates. Observers have noted that "Ironically, during 1982-1986 the debt crisis did not have a serious adverse effect on the reported current earnings of the banks, even though it called into question their very solvency".^{37/} They went on to note that the net income of the top nine banks (with the exception of BankAmerica) continued to rise over the period and that existing dividend payout ratios in 1982 were maintained over the same interim. For the leaders, then, the debt crisis to a certain degree represented an opportunity to obtain additional income and portfolio security primarily at the expense of other banks, aside from benefits obtained from the debtors themselves.

The behaviour of other United States banks also had adverse consequences for the debtor countries due to the procyclical nature of its impact. These smaller banks were rarely represented on bank steering committees and therefore did not receive additional fee income from the restructuring agreements. Like the leaders, they were able to obtain greater security for any unguaranteed private sector exposure, to the extent that it was incorporated into formal agreements. Their much lower average exposure, nonetheless, made them less responsive to agreements incorporating equiproportional increases in exposure as an element of new money facilities. These banks, slowly at first, began to act in the manner that once their initial benefits were secured they did their best to opt out of any facilities which contemplated increases in existing exposures.

The behaviour of the non-United States banks is not so easily discerned as was the case for United States banks due to the number of nationalities of banks involved. Non-United States banks did provide the bulk of the new money associated with the agreements restructuring developing country debt because

the usual net effect of small United States banks bailing out of those agreements and of the big United States banks increasing their exposure in only a minor way was only a small net increase in the exposure of United States banks as a group. The behaviour of non-United States banks varied considerably according to diverse factors, such as nationality, existing levels of exposure, the proportion of that exposure in developing countries and the nature of national bank regulations in respect of capital, provisioning, the tax treatment of debt write-offs, etc.

Table 12 provides information on the exposure of the most important creditor banks by nationality in Latin America at the end of 1985. It is evident that the banks from the United Kingdom, Japan and Canada had been the most active in Latin America. Canadian banks had an exposure rivalling that of the much larger French and German banking systems. Generally, with the exception of the United Kingdom, the European banking systems had more minor exposures in Latin America. Other sources of information suggest that European banks had substantially less of their overall lending located in developing countries, ranging from 18% in the case of Switzerland to 45% in the case of the United Kingdom than did United States banks which, on average, had placed 61% of their loans with developing countries by the end of 1985.^{38/} Generally, the European banks, excepting the English ones, tended to be more prudent in respect of their lending to developing countries and are therefore less vulnerable. That, in part, was a consequence of the more rigorous bank regulations that they faced in respect of capital adequacy, reserves, provisioning for bad debts and its fiscal treatment.^{39/} These banks tended to be more flexible in the debt restructuring process than the United States banks and, initially, the Japanese, Canadian and United Kingdom banks as well.

In summary, it is evident that bank behaviour may be usefully distinguished according to category (leader, challenger, follower) and nationality. One category of banks (leaders) which all happen to be of the same nationality (United States) dominated both the credit expansion and debt restructuring phases. They were the single most active category of banks and ended up being the most exposed of all banks. As price competition increased, they tended to actively seek out riskier clients, something which made them extremely vulnerable once the debt crisis began. Nonetheless, those same banks dominated the steering committee established to deal with the major over-indebted developing country borrowers, and they seem to have been able to derive special benefits from such dealings. It would appear that this leader behaviour is more important as a causal factor in the creation of the debt crisis than was the simpler disaster myopia demonstrated more typically by challengers and followers.

As has been noted a number of times, the debt crisis was a result of a host of factors of which the negative impacts on debtors from changes in the international environment, inappropriate policy responses by many of the principal borrowers and the procyclical behaviour and questionable lending practices on the part of some of the major TNBs are among the more pertinent. Here the focus is on the latter which is the less well-known causal factor. One clear conclusion from the foregoing analysis is that through their behaviour both the debtor countries and the creditor banks contributed to the genesis of the crisis. A relevant concern is to what extent, in general, was

LATIN AMERICA: EXPOSURE OF PRINCIPAL CREDITOR BANKS BY NATIONALITY AS OF END-1985

Source: Based on Central Bank data from listed countries with exception of those marked by asterisks, which are estimates of Banking Analysis Limited (IBCA), London. Data published in Instituto de Relaciones Europeo-Latinoamericanas (IRELA), Europa y la deuda externa de América Latina, Dossier, No. 11, June 1987.

the adjustment burden shared between those same major participants. The next section is addressed to that question.

D. The TNB debt restructuring process, 1983-1987

As was mentioned previously, the apparently successful resolution of the Turkish external debt problem in the late 1970s and early 1980s gave the bankers and government officials involved cause for satisfaction. During 1978-1981, Turkey restructured US\$5 500 million with official multilateral creditors and around US\$3 200 million with banks and, after successfully implementing a stiff adjustment policy incorporating a three year IMF stand-by arrangement, that country seemed to have gradually restored its creditworthiness. The apparent success of the Turkish external debt crisis seemed to have confirmed to bankers' and officials' minds that their manner of dealing with the individual debt crises, that is, putting the burden of adjustment on the borrower was the correct one. The widening of the debt crisis, first, in the form of the 1981 Polish crisis with its "contagion effects" for Eastern Europe and later via the inability of Mexico to continue servicing its external debt as of August 1982, which became the general situation for debtors, put that viewpoint to severe test.

One should remember that in 1974 there were only three countries in arrears on their external debts and those arrears added up to only about US\$500 million. There was no debt crisis, as such, in spite of the balance-of-payments disequilibrium caused by the rise in the international price of petroleum instituted by OPEC. By 1982, however, 34 countries had external arrears and that figure rose to 57 by the end of 1986. Signs of a serious debt crisis were becoming apparent even during the high cycle of sovereign lending to developing countries, 1978-1982, as measured by the number and value of TNB debt rescheduling agreements. The last half of 1982 was characterized by frantic efforts to rescue debtors, such as Argentina, Brazil, Chile, Ecuador, Mexico, Rumania, Uruguay and Yugoslavia, initially by way of IMF packages and bridge loans from the Bank for International Settlements (BIS) and United States government agencies. These efforts were followed by external debt restructuring in the bank steering committees (London Club) and official multilateral (Paris Club) fora. In its first instance, this intense and unprecedented interaction among the IMF, the OECD governments and agencies and the commercial banks demonstrated that the crisis was being taken seriously by creditors.

An interesting appreciation of the principal characteristics and elements of the developing country TNB debt restructuring with transnational banks is contained in table 13. By far the most outstanding characteristic of the debt restructuring process was the uneven distribution, with Mexico alone accounting for one third of the resources directed toward restructuring packages; a total equal to that for all non-OPEC major debtors and considerably more than that going to Brazil or OPEC major debtors. Mexico was obviously the focus of attention whereas Brazil restructured only relatively minor amounts, received no new money after 1985 (until 1988) and tried to make do utilizing other facilities, especially short-term lines of credit. The non-OPEC major debtors, primarily Latin American countries, were important but less so than Mexico alone in so far as restructured capital

Table 13

DEVELOPING COUNTRY DEBT RESTRUCTURING PACKAGES WITH TNBs, BY DEBTOR GROUP, 1980-1987 ^{a/}

(Billions of US dollars)

	1980-1982	1983	1984	1985	1986	1987	Total 1983-1987	Percentage distribution
I. <u>Restructuring g/</u>								
Mexico	5.3	35.6	8.7	84.1	36.1	112.8	277.3	70
Brazil	-	20.2	-	48.7	-	43.7	112.6	28
Major debtors: Non-OPEC b/	-	4.5	4.8	-	6.7	-	16.0	4
Major debtors: OPEC c/	5.3 g/	5.5	2.4	30.0	3.8	48.0	89.7	22
All others	-	3.7	-	4.3	24.9 i/	21.1 k/	54.0	14
II. <u>New money d/</u>								
Mexico	0.1	14.4	11.0	5.7	0.3	6.6	38.0	10
Brazil	-	5.0	3.8	-	-	5.0	13.8	3
Major debtors: Non-OPEC b/	-	4.4	6.5	-	-	-	10.9	3
Major debtors: OPEC c/	0.1	4.4	0.7	5.5	-	1.6	12.2	3
All others	-	0.4	-	0.2	0.3	-	0.9	...
(Subtotal I + II)	0.1	0.2	-	-	-	-	0.2	...
(Mexico)	(5.4)	(50.0)	(18.7)	(89.8)	(35.7)	(119.4)	(314.6)	(79)
(Brazil)	(-)	(25.2)	(3.8)	(48.7)	(-)	(48.7)	(126.4)	(32)
(Major debtors: Non-OPEC b/)	(-)	(8.9)	(11.3)	(-)	(6.7)	(-)	(26.9)	(7)
(Major debtors: OPEC c/)	(5.4)	(9.9)	(3.1)	(35.5)	(3.1)	(49.6)	(101.2)	(26)
(All others)	(-)	(4.1)	(-)	(4.5)	(25.2) i/	(21.1)	(54.9)	(14)
III. <u>Other facilities e/</u>								
Mexico	0.2	22.4	16.9	7.1	28.1	8.3	82.8	21
Brazil	-	-	-	1.0	-	1.0	2.0	1
Major debtors: Non-OPEC b/	-	15.8	15.1	-	24.1	-	55.0	14
Major debtors: OPEC c/	0.2	5.9	1.7	4.9	3.9	7.3	23.7	6
All others	-	0.7	-	1.1	-	-	1.8	...
Total I + II + III f/	...	0.1	0.1	0.1	0.1	-	0.4	...
(Mexico)	5.6	72.4	36.6	96.9	64.5	127.7	398.1	100
Brazil	-	25.2	3.8	49.7	-	49.7	128.4	32
Major debtors: Non-OPEC b/	-	24.6	26.4	-	30.8	-	81.8	21
Major debtors: OPEC c/	5.6 g/	15.8	4.8	40.4 h/	7.7	56.9 j/	125.6	32
All others	-	4.8	-	5.6	25.2 i/	21.1 k/	56.7	14
	...	2.0	1.6	1.2	0.8	-	5.6	1

Table 13 (concl.)

Source: ECLAC/CTC Joint Unit on basis of information contained in table II-3 of IBRD, Developing Country Debt, Washington, D.C., February 1987, pp. XXVI-XXXI and updates.

- */ Organized by date of signature of agreement. The following agreements in principle are excluded: Honduras (1983, 1984 and 1987), Peru (1984), Zambia (1984), Costa Rica (1985), Cuba (1985), Congo (1986), Morocco (1986), Mozambique (1987) and Jamaica (1987).
- a/ Consolidation of debt into new long-term obligations; includes arrears as well as future maturities.
- b/ Includes Argentina, Chile, Cuba, Peru, Panama, Bolivia, Uruguay, Philippines, Morocco, Cote d'Ivoire, Turkey and Yugoslavia.
- c/ Ecuador, Nigeria and Venezuela.
- d/ TNB loans arranged in conjunction with debt restructuring.
- e/ Rollover or interim short-term financing of current maturities and/or maintenance of short term credit lines.
- f/ Debt rescheduling and new money packages are the essence of debt restructuring; the other facilities are considered incentives to keep negotiations progressing or to facilitate the implementation of an agreement. Although these other facilities are not here considered as debt restructuring per se they are included to provide a more complete picture of the debt restructuring process.
- g/ Turkey accounted for US\$2.3 billion in 1982.
- h/ Argentina accounted for US\$13.4 billion in 1985.
- i/ Venezuela accounted for US\$21.2 billion in 1986, which had been agreed to in principle in 1984.
- j/ In 1987, Argentina, Chile and Philippines entered into restructuring of US\$29 500, 12 490 and 6 005 millions respectively, plus new money and other facilities.
- k/ Venezuela.

payments are concerned. In terms of instruments, restructuring packages consisted primarily of reprogrammed capital payments coupled with a small amount of new money and minor quantities of other facilities (Brazil being the exception). Thus, the restructuring process was centered on the Latin American countries, chiefly Mexico and the other non-OPEC major debtors and, in relative terms, Brazil was becoming increasingly the odd man out, as it attempted to avoid increased conditionality associated with a new IMF agreement and broader TNB debt restructuring.

Another dominant characteristic of the debt restructuring process of 1983-1987 was its changing nature. The total resources devoted to debt restructuring packages demonstrated much instability on an annual basis, with 1984 and 1986 being years of significant decline and 1983, 1985 and 1987 being ones of considerable expansion particularly when dealing with reprogramming alone, that is, excluding new money and other facilities. New money packages declined continually from US\$14 400 million in 1983 to almost zero in 1986 although Mexico and Argentina obtained some in 1987. Other facilities would have followed a similar decline had it not been for the large amount of short-term credit and the extension of maturities offered to Brazil in 1986 in order to keep negotiations going. In other words, the debt restructuring process showed considerable variation even at the level of groups of countries.

Table 14 gives a more detailed view of debt restructuring packages with transnational banks signed by the major debtors during the 1980s. It should be noted that some countries (Bolivia, Peru, as well as Turkey) ran into debt service problems before it became a general characteristic of developing country borrowers; however, the terms and conditions of those debt restructuring agreements generally conform to the nature of those of the first phase, with the exception that no new money or other facilities were made available to them.

The principal feature of table 14 is precisely that there exists a clear "phasing" in the debt restructuring process with transnational banks. The first phase, 1983-1984, judging from the terms and conditions shown, could be generally classified as emergency (one to two year horizon) operations which penalized the debtor for falling behind in his debt service. Eleven reprogramming agreements in this phase provided for maturities of seven to eight years and carried a spread over LIBOR of almost 2% plus an average commission of about 1.10% of the value of the debt restructured. Countries in crisis, particularly Ecuador, Yugoslavia, the Southern Cone ones and Mexico, generally restructured a greater part of their debt with transnational banks and the Latin American ones made greater concessions to the banks particularly in terms of accommodating the banks' desires to transfer private sector debt to the public sector in one manner or another and to clear up arrears (see table 15). Mexico had the leading position as far as the magnitude of resources and the negotiated cost of the accord are concerned, as was to be the case for the whole period. Other debtors (Brazil, Nigeria and Peru) generally made fewer concessions but reprogrammed significantly smaller proportions of their overall external debt with the banks. The period of time dedicated to the formalization of the agreements in principle generally was in the order of three to six months given that little resistance to accepting or implementing IMF agreements was encountered during

Table 14
DEBT RESTRUCTURING AGREEMENTS FOR MAJOR DEBTORS */ DURING 1981-1987

Date of signature a/	Country	Agreement in principle b/	Consolidation		Amounts involved		Spread g/	Maturity		Commission h/	Relative importance i/
			Beginning date	period c/	Amount programmed d/	New facilities e/		Grace	Total		
				(No. months)		money facilities f/					
IV.81	Bolivia I	VIII.80 j/	IV.81	24	451	-	2.19	2.5	5.3	1.13	49
VIII.81	Turkey I	n.a.	n.a.	n.a.	100 k/	-	1.50	-	3.0	n.a.	2
II.82	Peru I	n.a.	I.80	24	350	-	1.50	2.0	4.0	1.00	16
III.82	Turkey II	n.a.	VIII.79 l/	32	2 269 l/	-	1.75	2.0 m/	3.0 m/	n.a.	54
	Pre-crisis, subtotal			30	3 170	-	1.79	2.1	3.4	n.a.	27
II.83	Brazil I	XII.82	I.83	12	4 800	4 400	2.00	2.5	8.0	1.50	23
VII.83	Chile I	II.83	I.83	24	2 169	1 300	2.13	4.0	8.0	1.25	92
VII.83	Uruguay I	III.83	I.83	24	575 p/	240	2.19	2.0	6.0	1.38	63
VII.83	Peru II	III.83	III.83	12	380	450	2.25	3.0	8.0	1.25	29
VII.83	Nigeria I **/	n.a.	I/	I/	1 935	-	1.44	0.3	2.9	n.a.	28
VIII.83	Mexico I	III.83	VIII.82	28	20 167	8 800 s/	1.81	4.0	8.0	1.00	65
X.83	Yugoslavia I	n.a.	I.83	12	950	600	1.81	3.0	6.0	n.a.	109
X.83	Ecuador I **/	VIII.83	XI.82	14	1 835	431	2.19	1.0	6.5	1.25	110
I.84	Chile II	VII.83	V/	V/	1 160 w/	780	2.13	4.0	8.0	1.25	39
I.84	Brazil II	XI.83	I.84	12	5 900	6 500	2.00	5.0	9.0	1.00	27
V.84	Yugoslavin II	n.a.	I.84	24	1 250	-	1.56	4.0	7.0	n.a.	39
	Phase 1, Subtotal				41 121	23 501	1.98	3.6	7.7	1.20	41
III.85	Cote d'Ivoire I	n.a.	XII.83	25	501	104	1.75	2.5	7.5	-	22
III.85	Mexico II	VIII.84	I.87	48	28 600 y/	-	1.00	-	14.0	-	78
V.85	Philippines I	n.a.	X.83	22	5 885 z/	925	1.63	5.0	10.0	-	122
VIII.85	Mexico III	VIII.84	I.85	72	20 100 aa/	-	1.00	1.0	14.0	-	See above
VIII.85	Argentina I	XII.84	I.82	48	14 200	3 700	1.38	3.0	11.0	-	78
X.85	Panama I	VI.85	I.85	24	652	60	1.38	3.5	12.0	-	34
XI.85	Chile III	VII.85	I.85	36	4 859	785 dd/	1.38ee/	6.0	12.0	-	64
XII.85	Ecuador II **/	XII.84	I.85	60	4 400	200	1.38ff/	3.0	12.0	-	99
XII.85	Yugoslavia III	n.a.	I.85	48	3 600	-	1.13	3.5	10.0	-	84
II.86	Morocco I	n.a.	IX.83	24	538	-	1.75	3.0	7.0	-	14
II.86	Venezuela I **/	V.85	I.83	72	21 172	-	1.13	-	12.5	-	130
VIII.86	Uruguay II	II.86	I.85	60	1 700 gg/	hh/	1.50	3.0	12.0	-	76
IX.86	Brazil III	III.86	I.85	12	6 671	-	1.13	5.0	12.0	-	12
XII.86	Cote d'Ivoire II	n.a.	I.86	48	691	-	1.63	3.0	12.0	-	23
XII.86	Morocco II	n.a.	I.85	48	2 174	-	1.19	4.0	15.0	-	48
	Phase 2, Subtotal				115 743	5 774	1.18	1.5	12.7	-	58

Table 14 (cont.)

Date of signature a/	Country	Agreement in principle b/	Consolidation		Amounts involved			Spread g/	Maturity		Relative importance i/
			Beginning date	Length (No. months)	Amount programmed d/	New facilities e/	Other facilities f/		Total	Commission h/	
IV.87	Mexico IV	X.86	II/	60	43 700	7 700	950 kk/	0.81	7.0	20.0	95
VI.87	Chile IV	II.87	I.88	48	4 695 ll/	-	1 700	1.00	6.0	15.5	39
VIII.87	Argentina II	IV.87	I.86	60	30 249 mm/	1 550	3 500 nn/	0.81	7.0	19.0	97
IX.87	Venezuela II **/	III.87	I.82	84	20 422	-	-	0.88	-	13.0	86
IX.87	Philippines II	n.a.	I.87	72	9 356	- pp/	2 965	0.88	7.5	17.0	82
87	Mexico V	n.a.	I.88	48	9 700 qq/	-	-	n.a.	n.a.	-	see above
Phase 3, Subtotal					118 122	9 250	9 115	0.84	5.6	17.9	88

Source: ECLAC/CTC Joint Unit on basis of information contained in IBRD, World Debt Tables, 1987-1988 Edition, Volume 1. Analysis and Summary Tables, Washington, D.C., January 1988, table iv-3, pp. xxxvi-xlii, plus other national and international sources.

*/ Excludes Cuba, which does not participate in World Bank Debt Reporting System.

**/ Member of OPEC.

a/ The date that the new contract was signed (month, year). Note that the signing of the contract often took place much later than the agreement in principle mainly due to the borrower's problems with the International Monetary Fund programme and the bank steering committee's problems in bringing all previous lenders into the new package.

b/ Based on newspaper reports.

c/ The period encompassing reprogrammed payments and arrears starting on date shown and running for the number of months indicated.

d/ Consolidation of debt into new long-term obligations; includes arrears as well as future maturities.

e/ Loans arranged in conjunction with debt restructuring. Sometimes considered as the reprogramming of interest payments.

f/ Maintenance of short-term trade or inter-bank lines of credit or rollover or interim financing of current maturities. These facilities are considered primarily as incentives for the borrower to continue negotiations or to implement an agreement.

g/ The margin over the base rate of interest (usually LIBOR). Where split rates were encountered a weighted average was calculated.

h/ Calculated as a per cent of the original value of agreement. Principal commissions included are management, agency and drawdown fees plus expenses where specified.

i/ This indicator shows the amount of reprogrammed debt plus new money facilities (excluding other facilities) in relation to outstanding bank debt at year-end previous to the new agreement.

j/ Date of first deferment agreement with TNBs.

k/ Third party reimbursement claims.

l/ Revision of terms of 1979 agreements including new syndicated loan contracted in June of 1979.

m/ Number of years that original maturities were extended.

n/ Short-term credit maintenance. Furthermore, this agreement with TNBs was accompanied by credit for US\$1.2 billion from the Bank for International Settlements (BIS) and 1.9 billion from US Government Agencies (the Treasury and the Federal Reserve); these values are not included in the "other facilities" total.

o/ Short-term-credit maintenance. Furthermore, this agreement with TNBs was accompanied by credit for US\$300 million from BIS; it is not included in total for other facilities.

Table 14 (concl.)

- p/ Includes US\$359 million in short-term non-trade-related credits.
- g/ Includes payments deferred for a value of US\$200 million.
- r/ Two agreements (July and September) clearing away arrears on short-term letters of credit.
- s/ A new money facility for US\$3 800 million was obtained (over 10 years with a 1.5% spread over LIBOR) in a separate agreement dated April 1984. It is included here to simplify the presentation of the relevant information.
- t/ Interbank lines of credit (US\$5 200 million) maintained through end-1986. This agreement was facilitated by a credit for US\$900 million from the BIS and various credits from US Government Agencies which totalled US\$2 900 million.
- u/ Rollover of short-term debt for one year.
- v/ Consolidates three separate agreements of January (US\$1 160 million), June (US\$780 million) and November (US\$1 700 million).
- w/ Short-term debt converted to medium-term.
- x/ Includes rollover of short-term debt for US\$15 675 million, maintenance of US\$9 800 million trade-related lines of credit plus restoration of interbank exposure to US\$6 000 millions.
- y/ MYRA which restructured loans which had been rescheduled by 1983 agreement. Includes rescheduling of US\$5 billion new money facility of 1983. This gave rise to repeated short-term rollover of US\$950 million.
- z/ Includes private sector debt for US\$2 643 million.
- aa/ MYRA which restructured loans not included in 1983 agreement.
- bb/ Deferral of first principal payment for rescheduled 1983 new money facility as amended by March 1985 MYRA.
- cc/ This agreement was complemented by a bridge credit for US\$500 million from the US Federal Reserve and other participating governments; it is not included in total.
- dd/ Co-financing operation of World Bank for US\$300 million not included in total.
- ee/ These rates also apply to outstanding portions of 1983 and 1984 agreements.
- ff/ These rates also apply to outstanding portions of 1983 agreement.
- gg/ Includes US\$844 million in previously restructured debt.
- hh/ Agreement includes co-financing from World Bank.
- ii/ Includes deferment of 1986 maturities for US\$9 300 million.
- jj/ This might be considered the first real "renegotiation agreement" for its magnitude, the reduction of terms on previously restructured loans, the ex-post change in the spread for the 1983 and 1984 new money facilities, the growth contingency co-financing (as well as regular co-financing) of the World Bank and the contingency investment support facility.
- kk/ Restructuring of prepayment which was deferred since October 1985.
- ll/ Reduction in terms of 1983-1984 new money facilities and 1983-1987 restructuring agreements as well as rescheduling of some original 1988-1991 maturities. Includes retiming element (interest paid once yearly only).
- mm/ Restructuring of all principal maturities of pre-December 9, 1982 debt (maturing after December 31, 1985) for private sector borrowers is included.
- nn/ Agreement facilitated by extension of maturity of loan for US\$500 million placed previously by US Federal Reserve and other OECD governments.
- oo/ An incentive offered banks that signed up before a certain date.
- pp/ Agreement included reduced spread for 1985 new money facility of US\$925 million.
- qq/ Restructuring of private sector debt.

Table 15
LATIN AMERICA: CHARACTERISTICS OF BANK RESTRUCTURING AGREEMENTS FOR MAJOR DEBTORS DURING 1983

Country	Date of agreement	Medium and long-term debt			Short-term debt			Arrears		Future debt service
		Public sector	Publicly guaranteed		Private sector	Public sector	Private sector	Principal	Interest	
			yes	no						
Argentina	Jan <u>a/</u>	yes <u>b/</u>	yes	no	yes	no	yes	no	yes	
Brazil	Feb.	yes	yes	yes	yes	yes	no	no	yes	
Chile	July	no	yes	yes <u>c/</u>	yes	yes <u>c/</u>	no	no	yes	
Uruguay	July	yes	no	no	yes	no	no	no	yes	
Peru	July	no	yes	no	no <u>d/</u>	no	no	no	yes	
Mexico	Aug.	yes	yes	no <u>e/</u>	yes	no <u>e/</u>	no	no	yes <u>f/</u>	
Ecuador <u>*/</u>	Oct.	yes	yes	yes	yes	yes	no	no	yes	
Cuba	Dec.	yes	no	no	no	no	no	no	yes	

Country	IMF Arrangements		New financing			Official debt	
	In place	Conditional upon	New money	BIS money	US Gov't	Other	Official debt rescheduling
Argentina	yes	yes	yes	yes	no	yes	no
Brazil	yes	yes	yes	yes	yes	yes	no
Chile	yes	yes	yes	no	no	yes	no
Uruguay	yes	yes	yes	no	no	yes	no
Peru	yes	yes	yes	no	no	yes	yes
Mexico	yes	yes	yes	yes	yes	yes	yes
Ecuador <u>*/</u>	yes	yes	yes	no	no	no	yes
Cuba	no <u>g/</u>	no <u>g/</u>	no	no	no	no	yes

Source: ECLAC/CTC Joint Unit on basis of information contained in IMF, "Recent multilateral debt rescheduling with official and bank creditors", Occasional Paper No. 25, Washington, D.C., December 1983, table 11.

*/ OPEC member.

a/ Agreement in principle only.

b/ Excludes obligations covered by official guarantees from creditor bank home country.

c/ Financial sector only.

d/ Outstanding short-term debt as of 7 March was rolled over on short-term basis.

e/ Private sector debt renegotiated under separate schemes.

f/ Linked to settlement of private sector interest arrears.

g/ Not a member of the IMF.

this phase and most banks, even many of the smaller ones, then seemed willing to accept equiproportional increases in their exposure. Accepting the differences among particular cases, this first phase of the debt restructuring process was characterized by harsh terms for debtors.

The second phase, 1985-1986, saw more resources on much softer terms dedicated to the debt crises faced by the major borrowers. For the 15 agreements of phase II, the amount reprogrammed rose by almost 300%; however, new money facilities were sharply curtailed and other facilities shrank somewhat. The multi-year rescheduling agreement (MYRA) became more of a norm for Phase II of the restructuring process as the cases of Ecuador, Mexico, Uruguay and Venezuela demonstrated. Argentina, like Venezuela which had also remained outside of the formal Phase I agreements, signed its first restructuring agreement during this phase. Brazil continued to reprogramme debt on an annual basis while adjusting at a less forced pace. In general, compared to Phase I, the average consolidation period more than doubled (Brazil being the major exception), the average spread over LIBOR fell to 1.18%, maturities stretched to almost 13 years and commissions disappeared. The period between the agreement in principle and the formal signing of the final agreement tended to increase appreciably as difficulties with the meeting of IMF programme targets and the reluctance of smaller banks to continue extending their exposure began to come more fully into play. In general, nonetheless, this phase represented a much improved treatment of the debt crisis for the countries which signed new agreements, especially Mexico.

The third phase, beginning in 1987, witnessed the maintenance of existing levels of resources in terms of debt reprogrammed. New money facilities increased somewhat but were concentrated in only two countries (Mexico and Argentina). Other facilities declined sharply in comparison to Phase II. There were only six agreements rather than the 15 which made up the previous phase. Although the terms and conditions improved, the debt restructuring process was including fewer and fewer debtor countries. Few debtors could maintain the pace or social costs of the IMF administered adjustment programmes. Several could not even keep current on their interest payments let alone repay capital on the original or already restructured terms. However, terms and conditions again improved markedly as the average consolidation periods increased to 63 months and spreads over LIBOR fell to less than 1%, maturities lengthened appreciably to 18 years, on average. Argentina, Mexico, the Phillipines and Venezuela, continued to restructure huge proportions of their outstanding bank debt (82-97%); however, in the case of Chile, the proportion restructured fell to 39%, including new money. Again, the Mexican agreement, which seemed to represent the first real renegotiation agreement in the sense that it was a kind of global treatment of the external debt which encompassed the restructuring of previous agreements over a long-term horizon and incorporated contingency clauses with regard to growth and export prices, deserves attention. At the same time, however, the increasing lag between the agreement in principle and the signing of the formal accord made manifest the serious difficulties encountered in bringing previous participating banks, especially small United States ones and, increasingly, European ones, into the new agreements. This third phase, like the second, held the promise of a significant improvement in the treatment of developing country debtors.

Three principal features stand out from this analysis of the restructuring process viewed in the context of the analysis of TNB behaviour. First, the tendency to interpret the debt crisis in terms of Brazil and Mexico alone lost its force as their individual economic situations and negotiating policies diverged considerably and the importance of the cases of other major debtors began to be more fully appreciated. Thus, the creditor group view of the debt crisis tended to become less unidimensional. Secondly, although the adjustment burden was borne essentially by the debtor countries alone during the first phase of the restructuring process, it soon became apparent that this was counterproductive and that for the debtors to bear the burden they had to both grow out of this debt and share some of the burden with the creditor institutions. The second and third phases of the restructuring process were considerably better for major debtors although fewer and fewer of them were covered by the improved agreements. Thirdly, as some relatively small portion of the adjustment burden began to be transferred to the creditor banks it became increasingly difficult to raise new money and obtain other facilities. Smaller United States banks, which did not receive the commissions and fees collected by the steering committee members, especially the leader group, became less willing to extend their exposure. After initially permitting some minor expansion of their exposure in the major debtor countries during the first phase, the major United States banks also began to wind down their exposure in the region. This produced a situation in which more of the burden was being progressively pushed onto the non-United States major banks. Due in good part to this behaviour on the part of United States banks, the restructuring process became increasingly difficult for all participants.

Bank behaviour was a critical factor in both the boom and bust phases of the TNB: developing country relationship during 1974-1987. During the boom, by way of price competition challengers increasingly gained market share from leaders with respect to the public sector or State-guaranteed clients of most major developing country borrowers. The leaders reacted by directing more of their lending towards riskier sovereign borrowers on the margin of the international capital market or toward unguaranteed private sector clients in markets where they were already established. In this manner the leaders tried to maintain earnings by charging higher fees, commissions and spreads to their riskier clients in the face of increased price competition from challengers and followers in established sovereign borrower markets. While disaster myopia was characteristic of most bank behaviour in an atmosphere of unregulated price competition the new behaviour of the leaders was viewed more in terms of voluntary reliance on the riskier clients whose creditworthiness did not allow them to participate fully in the international market.

During the TNB restructuring process bank behaviour again was a key element. Leader banks controlled the process because of their larger exposures and their domination of the bank steering committees. They were able to derive special advantages in terms of bringing their riskier clients into the restructuring agreements. This caused tension among the TNBs as did the lack of success of the leader bank-inspired first stage of the restructuring process. All this suggests that TNB behaviour, particularly that of the leaders, was one of the central factors in the creation of the TNB debt crisis in developing countries.

Chapter II

THE CASE STUDIES: NEW INSIGHTS INTO THE DIFFERENTIAL BEHAVIOUR OF TRANSNATIONAL BANKS

The analysis of the preceding chapter suggested several conclusions with regard to the behaviour of distinct categories of transnational banks in developing countries during the credit boom and during the period of crisis. The case studies allow one to further explore their validity. For example, in competitive markets, that is, in those developing countries where increased price competition by banks to place syndicated credits was coupled with increasing volumes of lending during the boom, it can be suggested that all three types of the top 25 organizers, that is, leaders, challengers and followers, would be active in the organization of syndicated credits to the public sector; however, the challengers would be much more active than the leaders (which would tend to vacate those markets where competition was stiffest). The challengers would continue to participate actively in syndicated credits, whereas the leaders would tend to concentrate more on direct loans to unguaranteed private sector borrowers in those competitive markets. Followers would participate in both syndicated credits and direct loans to the private sector but less actively than the challengers in the former or the leaders in the latter. Other banks, especially new entrants, would become increasingly important as participants in syndicated credits, especially those organized by the challengers. In riskier markets, that is, in those developing countries which had less access to the syndicated loan market and in which price competition did not exist or at least was not coupled with increasing volumes of lending during the boom, it is reasonable to presume that the leaders would be more active in organizing and participating in syndicated credits and, to a lesser extent than in competitive markets, in lending directly to the private sector. The followers would behave similarly but at a lower level of activity and the new entrants would continue as participants in the syndicated credits placed with or guaranteed by the public sector. In these riskier markets, the challengers would be relatively inactive during the boom. In gist, having been challenged as organizers in the more competitive markets, the leaders would tend to place more syndicated credits with riskier clients, be they private sector ones in the more competitive markets or simply by organizing and participating in syndicated loans to countries on the margin of the international capital market (due to their more minor creditworthiness). This chapter presents information collected from the loan contracts analysed in the course of this study as well as a new view on some publicly available

information in order to obtain a clearer perspective on these matters. The methodology is fully explained in annex 20.

It might be mentioned that the six case studies undertaken here are very relevant and pertinent. Given that relatively more publicly available information is usually found for the largest debtors, Brazil and Mexico, it was decided to concentrate on the intermediate or small size major debtors. The six case studies selected --Argentina, Bolivia, Colombia, Peru, Philippines and Uruguay-- all fell into the category of the 17 highly indebted countries as defined by the World Bank, and formed part of the group of 15 troubled debtors covered by the Baker initiative.

A. TNB behaviour in the case studies: new information from the TNB loan contracts

One of the more innovative aspects of the case study methodology was the collection of quantitative and other information from the individual loan contracts with transnational banks signed by the sovereign borrowers and usually found in the depositary of the national Central Bank. Using forms such as that contained in annex 20, information was collected from each transnational bank loan contract which satisfied the following criteria: syndicated loans with floating interest rates, placed with or guaranteed by the State or its agencies (excluding Defense or Police), carrying a minimum original value of US\$1 million and with an original maturity of one year or more. Certain relevant aspects of the data collection and processing exercises which should be kept in mind are the following:

- Credit institutions which were subsidiaries of other transnational banks were consolidated into the head office in cases where the latter possessed more than 50% of the former's shares according to The Banker, Who Owns Whom in World Banking, 1979-1980, London, 1980.
- The United States dollar was used for all loan values due to the fact that a high percentage of the total value of all these loans was denominated in this way. For other currencies, the conversion was made using the relevant exchange rate for the date on which the contract was signed.
- In the case of loans with distinct rate spreads, a weighted average was calculated for the life of the loan or, in the few situations that this was not possible, the loan was subdivided into components with different interest rates. The commissions and fees were calculated as a percentage of the value of the loan. In relevant cases they were averaged similar to the manner described above. In reaggregation exercises, the figures were weighted according to the relevant amounts, maturities and other quantifiable aspects of the same loans.

In general, it can be said that the data bases created for Colombia, Bolivia and the Philippines were complete and of excellent quality. That of Peru was very good with regard to its completeness and quality although minor

gaps persisted. The data bases of Argentina and Uruguay were less complete. Much contract information for those two cases had to be generated from secondary sources.^{40/} For all cases this quantitative information was reinforced by a consultant's report and the interviewing of public officials.

The data base created by the universe of syndicated loans placed in these case studies is of considerable magnitude, reaching over US\$23 billion in constant values for the 1974-1982 period. Table 16 offers an overview of that information by case. The annual totals confirm that there is a definite high cycle (1979-1982) to the boom period as a whole in aggregate yet the situation at the country level was quite diverse. Bolivia had practically no access to the market as the high cycle began, the Uruguayan and Philippine borrowing declined sharply during that cycle and Peru's access was irregular. In that sense, only Colombia and Argentina seem to clearly fit the "high cycle" norm. As is suggested by these data, even in the most aggregated form, the case study information holds many surprises. Placed in the context of the analytic considerations of the preceding chapters, this information throws new light on many distinct behaviour traits of TNB lenders as the following pages shall make evident.

One of the most interesting aspects of the data from these six case studies is that it allows one to distinguish the organization of syndicated credits from the participation in them, a key factor in differentiating bank behaviour. The mobilization of capital for these countries was very concentrated in the top 25 organizers identified earlier (see table 9). These top 25 organizers mobilized over half (55.8%) of the total amount of syndicated credits placed in these countries; however, they directly contributed less than that (43%) (see table 17). There were significant differences in the distribution by borrower, by nationality and by category of lender. With regard to the borrower, for the cases of the bigger countries where price competition played an important role (Argentina, Colombia and Philippines and, to a much lesser extent, Peru) the top 25 organized 48-56% of the total amount lent whereas for the smaller countries where price competition was less important (Bolivia and Uruguay) they mobilized 74-78% of the total. In terms of their actual participation in the total value of credits placed in these countries, the top 25's share ranged from 38 to 49% for the bigger countries and from 53% to 63% for the smaller ones.

Viewing the behaviour of the principal organizers from the perspective of nationality of bank is also informative (as is indicated by table 17). It is evident that for the English-speaking countries (United States, Canada and United Kingdom), for example, a very high proportion of the capital mobilized for these borrowers was organized by banks which formed part of the top 25 organizers, whereas for Japan and the European countries that tendency was less pronounced. On the whole, United States banks raised the largest share of the capital mobilized for these countries; however, the proportion they raised for the riskier countries (Peru, Bolivia and Uruguay) was considerably larger than that organized for the more price competitive markets and that was particularly true of the United States banks which were among the top 25 organizers. Also noteworthy is the fact that the Japanese and the European banks (with the exception of one German bank in the case of

Table 16

VOLUME OF SYNDICATED LOANS PLACED WITH OR GUARANTEED BY PUBLIC SECTOR, DURING 1974-1982

(Millions of 1980 US dollars)

Country	1974	1975	1976	1977	1978	1979	1980	1981	1982	Total
Argentina	nd	46.1	1 432.3 ^r	389.5	1 326.0	1 621.0	1 903.9	1 525.2	389.0	8 632.0
Philippines	128.3	106.8	530.4	359.0	1 409.6	1 031.3	739.6	579.2	704.9	5 588.9
Peru	559.7	525.4	562.4 ^r	-	-	490.2	224.1	620.5	736.8 ^r	3 719.1
Colombia	37.5	179.0	156.0	19.6	91.6	735.3	636.5	810.0	378.5	3 044.1
Bolivia	92.0	131.0	228.4	167.5	259.0	121.0	-	410.4 ^r	-	1 409.2
Uruguay	nd	nd	nd	113.9	258.2	102.9	51.0	72.8	139.4 ^{**/}	738.2
Total	817.5	988.1	2 909.5	1 049.6	3 344.4	4 101.7	3 555.0	4 018.0	2 348.6	23 132.5

Source: ECLAC/CTC Joint Unit.

* Deflated by consumer price index for industrial countries.

** Excludes loans associated with the purchase of bad loan portfolios of certain TNBs operating in Uruguay.

^r General agreement reprogramming external bank debt is included in annual total.

nd No data available.

Table 17

CAPITAL MOBILIZED IN SYNDICATED CREDITS BY CATEGORY
AND NATIONALITY OF BANKS, 1974-1982

(Millions of 1980 US dollars)

Nationality	Argentina	Philippines	Colombia	Peru	Bolivia	Uruguay
I. <u>Top 25</u>						
- total	<u>4 180.2</u>	<u>3 124.1</u>	<u>1 968.4</u>	<u>1 939.8</u>	<u>1 037.2</u>	<u>572.8</u>
United States	1 517.8	1 369.9	764.2	1 119.3	767.0	450.5
Japan	557.5	428.7	409.1	159.8	-	-
Canada	789.6	609.8	426.3	246.2	74.3	122.3
United Kingdom	647.0	428.1	273.1	134.6	16.4	-
F.R. Germany	351.3	209.0	79.7	133.4	174.3	-
France	327.0	78.6	16.0	146.0	5.2	-
II. <u>Other banks</u>						
- total	<u>4 452.8</u>	<u>2 464.9</u>	<u>1 075.7</u>	<u>1 779.3</u>	<u>372.0</u>	<u>165.4</u>
United States	395.6	604.0	137.6	577.2	200.3	110.1
Japan	1 127.6	818.7	294.8	236.0	-	-
Canada	73.8	66.1	6.7	24.8	-	-
United Kingdom	90.8	66.1	-	10.9	-	-
F.R. Germany	352.1	52.5	22.4	5.6	-	-
France	192.5	130.3	90.8	35.3	10.1	-
Others	2 220.4	726.9	523.4	889.5	161.6	-
III. <u>All banks</u>						
- total	<u>8 633.0</u>	<u>5 589.0</u>	<u>3 044.1</u>	<u>3 719.1</u>	<u>1 409.2</u>	<u>738.2</u>
United States	1 908.4	1 973.9	901.8	1 696.5	967.3	560.6
Japan	1 680.2	1 247.4	703.8	395.8	-	-
Canada	863.4	675.9	433.0	271.0	74.2	122.3
United Kingdom	737.7	494.4	273.1	145.5	16.4	-
F.R. Germany	703.4	261.5	102.1	139.5	174.3	-
France	519.4	208.9	106.8	181.4	15.4	-
Others	2 220.4	726.9	889.5	1 220.9	161.6	55.3

Table 17 (concl.)

Nationality	Argentina	Philippines	Colombia	Peru	Bolivia	Uruguay
(Percentages)						
I. <u>Top 25 - total</u>	<u>48.4</u>	<u>55.9</u>	<u>64.6</u>	<u>52.2</u>	<u>73.6</u>	<u>77.6</u>
United States	17.5	24.5	25.1	30.1	54.4	61.0
Japan	6.4	7.6	13.4	4.3	-	-
Canada	9.1	10.9	14.0	6.6	5.2	16.6
United Kingdom	7.5	7.7	9.0	3.6	1.2	-
F.R. Germany	4.1	3.7	2.6	3.6	12.4	-
France	3.8	1.4	0.5	3.9	0.4	-
II. <u>Other banks</u>						
- <u>total</u>	<u>51.6</u>	<u>44.1</u>	<u>35.3</u>	<u>47.8</u>	<u>26.3</u>	<u>22.4</u>
United States	4.6	10.8	4.5	15.5	14.2	14.9
Japan	13.1	14.6	9.7	6.3	-	-
Canada	0.9	1.2	0.2	0.7	-	-
United Kingdom	1.1	1.2	-	0.3	-	-
F.R. Germany	4.1	0.9	0.7	0.2	-	-
France	2.2	2.3	3.0	0.9	0.7	-
Others	25.7	13.0	17.2	23.9	11.5	7.5
III. <u>All banks</u>						
- <u>total</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
United States	22.1	35.3	29.6	45.6	68.6	75.9
Japan	19.5	22.3	23.1	10.6	-	-
Canada	10.0	12.1	7.3	14.2	5.3	16.6
United Kingdom	8.5	8.8	9.0	3.9	1.2	-
F.R. Germany	8.1	4.7	3.4	3.8	12.4	-
France	6.0	3.7	3.5	4.9	1.1	-
Others	25.7	13.0	32.4	23.9	11.5	7.5

Source: ECLAC/CTC Joint Unit.

Bolivia) mobilized zero or very little capital for the small riskier borrowers, that is, Bolivia and Uruguay. Their organization of credits in the other risky case —Peru— is at a significantly higher level than Bolivia and Uruguay but at a significantly lower level than that of the more price competitive cases. In other words, the information from the case studies clearly supports the conclusions reached earlier regarding the behaviour of the principal organizers of syndicated loans to developing country borrowers.

The separation of the top 25 banks' organizational activities according to category --leader, challenger and follower— proved extremely enlightening. Table 18 demonstrates that the five leaders and the 10 challengers mobilized a similar amount of capital for these six case studies, considerably more than that mobilized by the 10 followers; however, the country distribution of those syndicated credits differed considerably. The leaders dominated the first ranks as principal organizers (particularly Citicorp which held first place in three cases and BankAmerica which was first in two cases); nevertheless, the challengers --as a group— dominated the organization of syndicated credits for the cases where price competition was a primary factor (Argentina, Philippines and Colombia). The leaders --as a group— dominated the riskier cases (Peru, Bolivia and Uruguay). With regard to the price competitive markets, the amounts organized by the followers, as a group, compared favourably to that of the leaders, in fact they surpassed the total capital mobilized by the leaders in two out of three cases (Argentina and Colombia); however, as individual organizers followers were only in the upper ranks in the cases of Credit Lyonnais in Argentina and Peru and Dresdner in Bolivia. It should be emphasized that the "principal organizers" of table 18 are scaled such that they account for roughly the same proportion (37-48%) of the total capital mobilized in each case. If one takes US\$500 million as the cut-off point, it is evident that just four leaders and five challengers together raised more than one-third of the total capital. Moreover, in the case of the riskier clients (Bolivia, Peru and Uruguay), just four leaders (Citicorp, BankAmerica, Manufacturers Hanover and Chase Manhattan) organized 23, 52 and 61% respectively of the total syndicated loans for these countries during the period under consideration. These leaders demonstrated an obvious tendency to organize the lion's share of the capital mobilized by the riskier borrowers, on top of their exposure in the more price competitive cases. The challengers, on the other hand, evidently focused their activities on the more price competitive markets.

Figures 5 and 6 offer a more complete picture of the boom in syndicated lending for these case studies, they contain annual totals which indicate shifts in the activities of the leaders, challengers, followers and other banks. They also permit comparison to the actual participation of these categories of bank in the capital mobilized for these individual case studies. Viewed in the context of the price index of figure 5 the cases of Argentina, Philippines and Colombia demonstrate that price competition resulted in a significant growth, as measured by the volume of credits mobilized. A relevant observation here is that although the leaders played an important role in achieving market access for these countries during the first lending cycle 1974-1978, they were generally less active or retreated from those markets during the high cycle, 1979-1982. It was the challengers

Table 18

RANKING OF PRINCIPAL ORGANIZERS OF SYNDICATED CREDITS, 1974-1982
(Rank values and millions of 1980 US dollars)

	Argentina	Philippines	Colombia	Peru	Bolivia	Uruguay	Total capital mobilized a/
Leaders	<u>1 269.4</u>	<u>1 069.0</u>	<u>492.8</u>	<u>940.7</u>	<u>726.0</u>	<u>450.5</u>	<u>4 948.4</u>
Citicorp	1	1	-	4	2	1	1 493.9
BankAmerica	11	-	2	1	1	2	1 232.0
Manufacturers Hanover	6	4	-	5	-	-	950.3
Chase Manhattan	-	2	-	3	-	-	812.3
J.P. Morgan & Co.	4	-	-	-	-	-	460.0
Challengers	<u>1 685.2</u>	<u>1 452.1</u>	<u>914.5</u>	<u>625.1</u>	<u>103.4</u>	<u>122.3</u>	<u>4 902.5</u>
Bank of Tokyo	3	6	3	7	-	-	827.3
Bank of Nova Scotia	8	10	5	-	-	-	781.1
Lloyds	2	5	-	-	-	-	652.9
Chemical	12	-	1	-	-	-	600.7
Bank of Montreal	9	3	-	-	-	-	530.5
Bankers Trust	-	8	-	-	-	-	440.2
Toronto Dominion	-	-	-	-	-	-	362.1
Canadian Imperial	-	-	-	-	-	-	-
Bank of Commerce	7	-	-	-	-	-	295.7
Long Term Credit Bank	-	-	-	-	-	-	294.4
Commerzbank A.G.	-	-	-	-	-	-	117.6
Followers	<u>1 315.8</u>	<u>618.4</u>	<u>561.0</u>	<u>374.1</u>	<u>207.8</u>	<u>-</u>	<u>3 077.1</u>
Industrial B. of Japan	10	-	-	-	-	-	431.7
Credit Lyonnais	5	-	-	6	-	-	417.9
Dresdner	-	-	-	-	3	-	397.5
Barclays	-	-	-	-	-	-	378.2
West Deutsche LB	15	-	-	-	-	-	335.7
Royal Bank of Canada	-	-	-	-	-	-	302.3
Midland Group	-	-	-	-	-	-	262.6
National Westminster	-	-	-	-	-	-	207.7
Deutsche Bank	-	-	-	-	-	-	188.7
Banque Nat. de Paris	-	-	-	-	-	-	154.9

Table 18 (concl.)

	Argentina	Philippines	Colombia	Peru	Bolivia	Uruguay	Total capital mobilized a/
No. of principal organizers	15	10	5	7	3	2	17
% capital mobilized by them b/	39	43	37	37	48	47	40
% capital mobilized by top 25	49	56	65	52	74	78	56

Source: ECLAC/CIC Joint Unit.

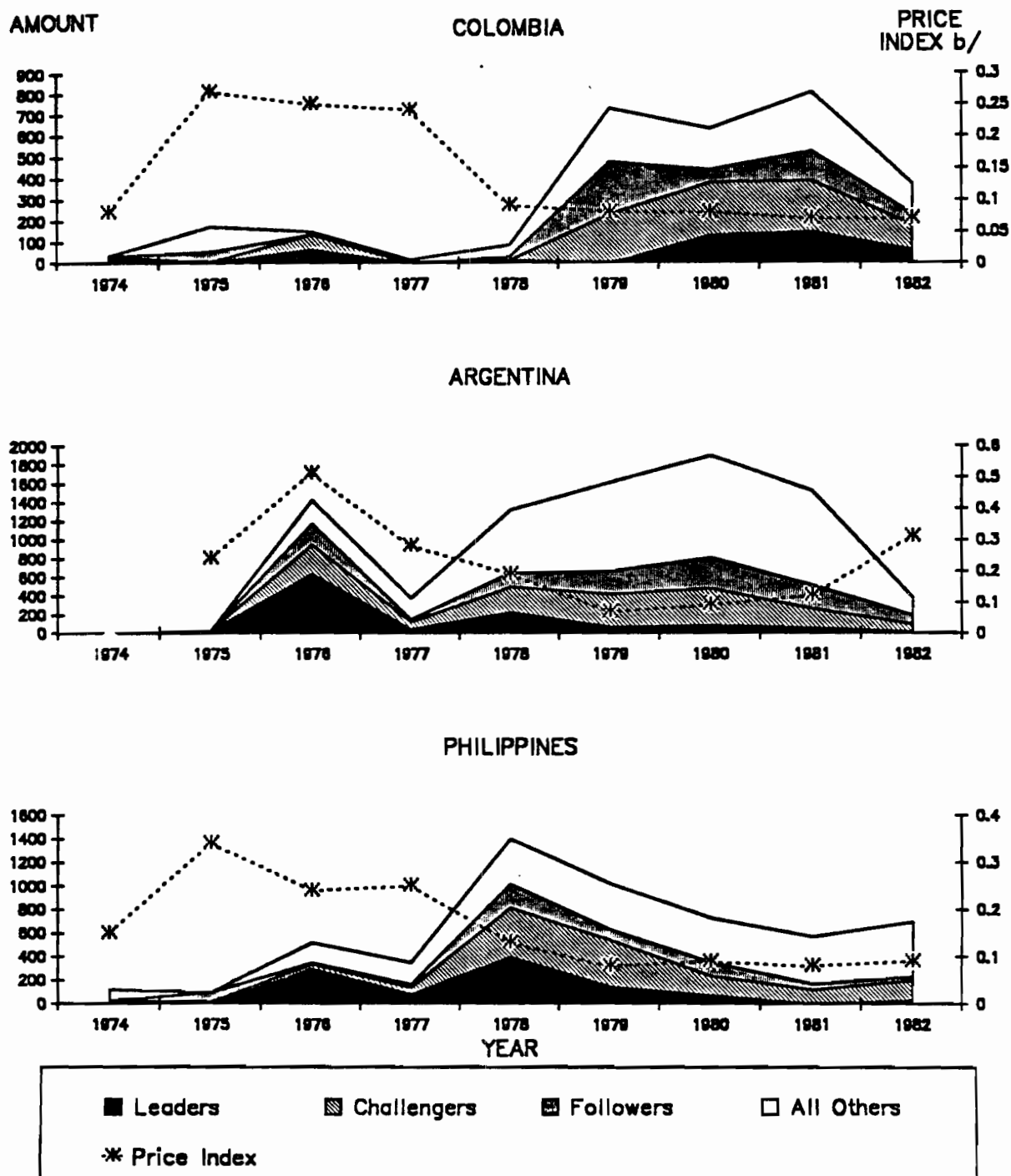
a/ Includes loans mobilized by these banks in all case studies.

b/ Includes only ranked banks.

Figure 5

**CAPITAL MOBILIZED^a BY CATEGORY OF BANK, MORE
PRICE COMPETITIVE CASES, 1974-1982**

(Millions of 1980 U.S. dollars)

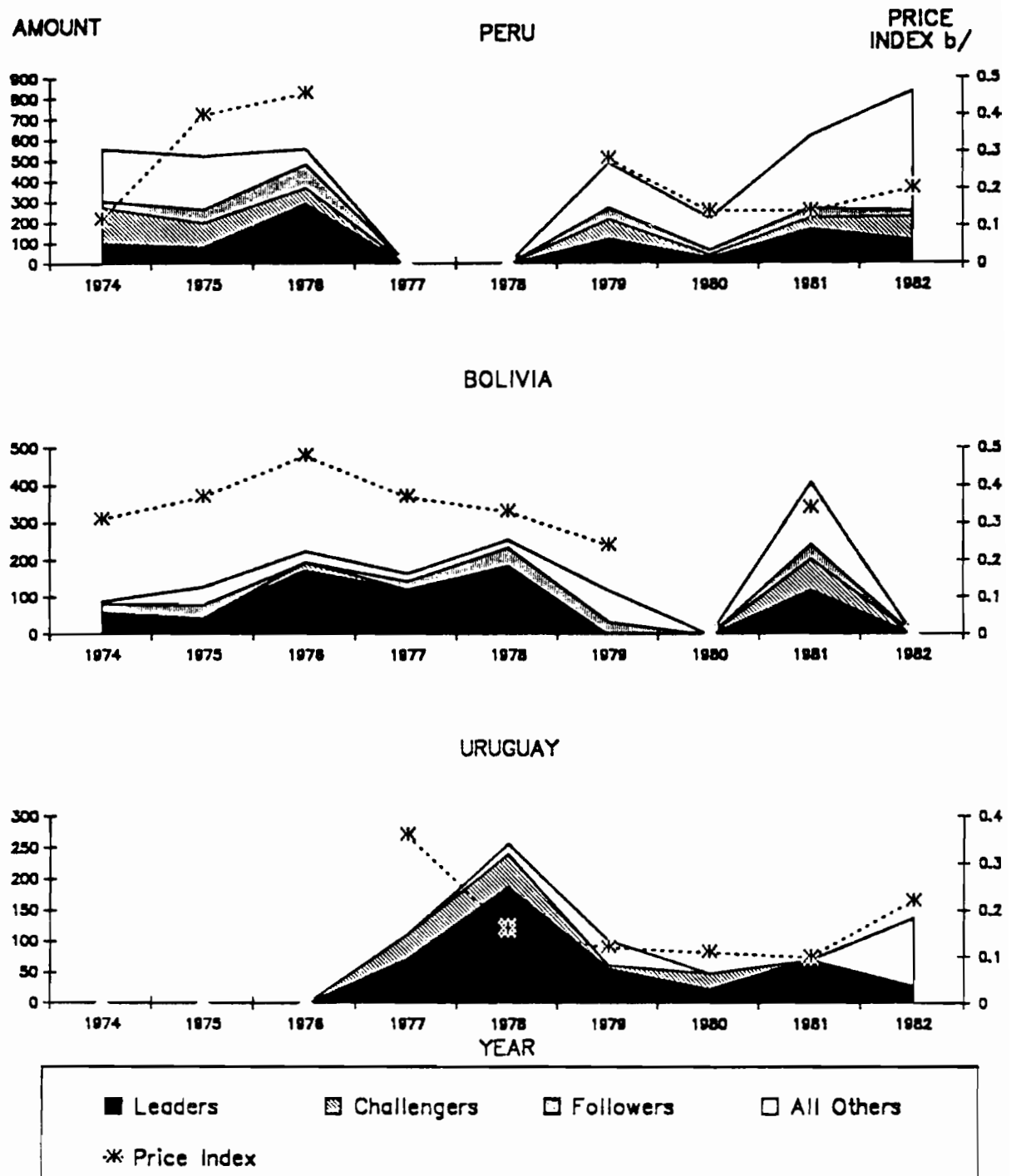


Source: ECLAC/CTC Joint Unit, see Annexes 21-23.

^aAccording to this concept, the total value of the loans is assigned to the organizing bank (manager) or distributed equally among co-managers.

^b(Commission / Maturity + Spread) / Maturity.

Figure 6

CAPITAL MOBILIZED^a BY CATEGORY OF BANK, RISKIER CASES, 1974-1982*(Millions of 1980 U.S. dollars)*

Source: ECLAC-CTC Joint Unit, see Annexes 24-26.

^aAccording to this concept, the total value of the loan is assigned to the organizing bank (manager) or distributed equally among co-managers.

^b(Commission : Maturity - Spread) : Maturity.

(and other banks) which drove these markets during the high cycle. The other organizers outside of the top 25 generally arrived late on the scene in these markets but they continued to organize for a longer period of time. The important fact, nonetheless, is that as the competition to place credits in these markets heated up the leaders apparently preferred to vacate them rather than meet the price competition of the challengers (and other banks). The challengers won greater market shares by competitively pricing the syndicated credits they offered to these borrowers during the high cycle of the boom.

Figure 6 indicates that for the riskier borrowers the price mechanism was not the principal factor determining the volume of capital mobilized; rather the degree of access to the international capital market permitted by TNBs was preeminent. These countries did not enjoy continuous access and the average cost of their borrowing was considerably higher than that of the previous group of countries. Peru structured major portions of transnational bank debt in 1976, 1979, 1982 and 1983 and it was completely excluded from the market during 1977-1978 and partially excluded during 1980. Bolivia was excluded from the market during 1980 and even though it structured its bank debt in 1981 it was not readmitted thereafter. Uruguay's access was severely restricted as of 1978 and although it achieved good terms during 1979-1981 it could not raise significant volumes of medium-term syndicated credits on that basis. The leaders dominated these cases during the early phase. Their control of the debt structuring process in Peru and Bolivia appears to have allowed them to a certain degree to reduce their participation in syndicated credits in these particular cases during 1981-1982 while still earning good fee income. The challengers generally avoided these riskier clients and played a more minor role in the restructuring agreements. The other banks entered these markets late and they were left with significant exposures in these difficult cases.

In summary, viewed according to their loan organizing behavior in these cases, it is clear that the leaders opened up most of these markets; however, once the price competition of the challengers and other banks increased they tended to reduce their lending activities there, participate less in the syndicate they organized and concentrate more on the riskier clients (usually identified by the restructuring of their debt shortly thereafter). The challengers, on the other hand, made their way into the price competitive markets through badly pricing the credits they organized and participated in. They avoided the riskier clients. This would appear to provide strong evidence to support the hypothesis that the leaders were more interested in generating higher commission and fee income (or, as shall become evident, enjoying larger spreads where they could be had) during the high cycle of syndicated lending to developing countries by organizing relatively more credits for less creditworthy borrowers. The challengers preferred to maintain income by organizing ever-larger credits in which increasing volume compensated for finer spreads and by avoiding the riskiest of clients. In this fashion, it is possible to clearly distinguish the behavioural tendencies of the two categories of banks which dominated the group of top 25 organizers of syndicated credits during the boom period. This differentiation of TNB behaviour, especially that of the leader and challengers, indicates that TNB behaviour was far from homogenous as usually assumed. Price competition was only one element of the market dynamics of organizing

syndicated credits for sovereign borrowers; nonetheless, the leaders seem to have done their utmost to avoid it.

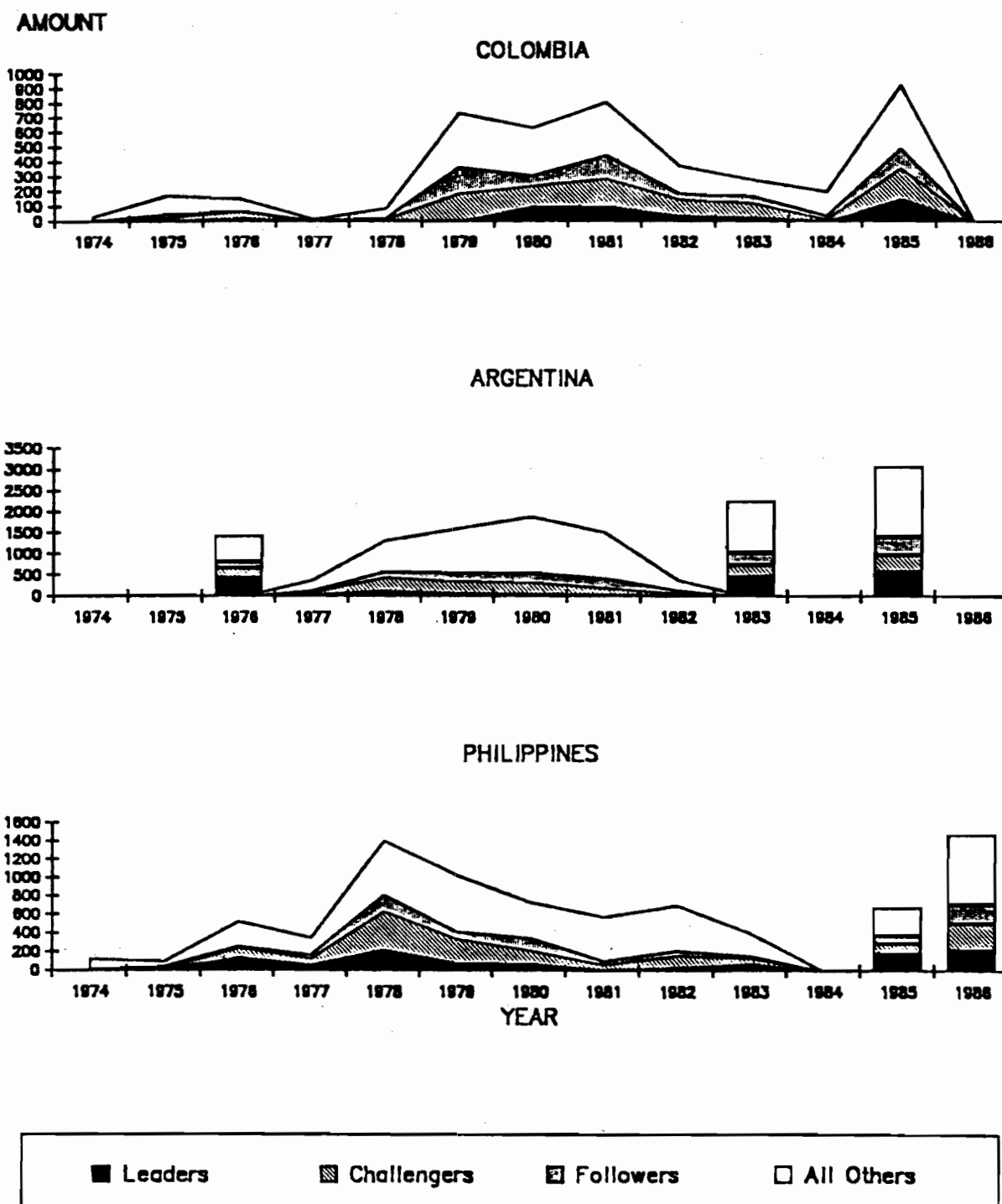
Figures 7 and 8 present information of how these different categories of banks actually participated in the syndicated credits raised for these sovereign borrowers during the boom as well as how their participation changed during the years that restructuring agreements or new money facilities were signed (indicated by separate bar charts in these graphs). The large loan signed by Colombia in 1985 was not a formal restructuring agreement; nonetheless, it was based on a proportional increase of exposure in similar fashion. For the case studies in which price competition was more pronounced (Argentina, Philippines and Colombia) the level of participation of the leader banks was significantly lower than their level of capital mobilized and, in fact, usually represented the most minor level of participation, as can be seen in figure 7. For the cases in which price competition was less pronounced and for which access was an important factor (Peru, Bolivia and Uruguay), the level of participation of the leaders was usually the single highest among the top 25 organizers. The participation of the challengers in these last cases was much less whereas their participation in the more price-competitive cases was quite pronounced and compared well to the volume of capital that they mobilized. Thus, the expected behavioural tendencies of leaders and challengers are also encountered in regard to their participation in the syndicated credits placed with these sovereign borrowers.

As was suggested by the cases of Brazil and Mexico in chapter I, the formation of bank steering committees for these six major debtors put the leaders firmly in control of the debt restructuring process as is manifest in the information contained in table 19. The five leaders occupied 23 of the 67 positions on these committees and, more importantly, one of the leader banks (usually Citicorp) was the co-ordinating agent in five of the six countries. Only in the case of Colombia did a challenger act as co-ordinating agent. The overall number of positions filled by challengers (17) barely exceeded that of follower banks (16). Viewed from the perspective of nationality, United States banks alone were represented in over one half of the committee positions, whereas Japanese, Canadian, United Kingdom and German banks were limited to six-seven positions each. Excepting Bank of America (based in California), these steering committees were dominated by New York money centre banks.

This overrepresentation of New York based money centre banks (especially the leaders) meant, in the cases studied at least, the underrepresentation of other categories of bank, most notably, challengers and non-United States ones. A number of questions arise as to why certain leaders or followers were included in individual committees and, particularly, why certain challengers were not, based on a comparison of committee composition with information for syndicated lending during the boom period. For example in the case of Argentina it would appear that challengers such as Bank of Montreal, Canadian Imperial Bank of Commerce and Bank of Nova Scotia were more active organizers and lenders than leaders such as Chase Manhattan or followers such as Royal Bank of Canada or Dresdner Bank. A similar case holds for the Philippines where it would appear that challengers such as Bankers Trust and Lloyds were more active than leaders

Figure 7
**PARTICIPATION IN SYNDICATED CREDITS BY CATEGORY OF BANK,
 MORE PRICE COMPETITIVE CASES, 1974-1986**

(Millions of 1980 U.S. dollars)



Source: ECLAC/CTC Joint Unit, see Annexes 21-23.

Figure 8
**PARTICIPATION IN SYNDICATED CREDITS BY CATEGORY OF
 BANK, RISKIER CASES, 1974-1986**

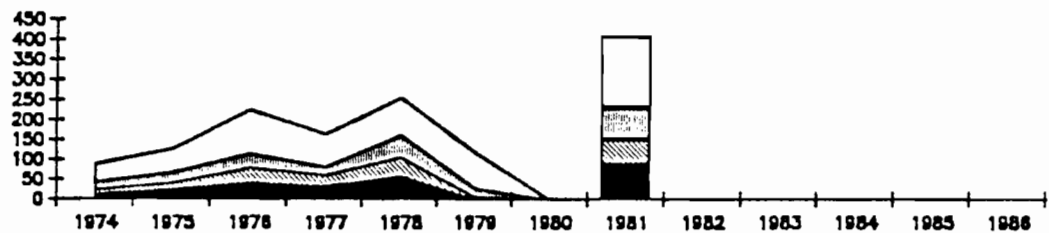
(Millions of 1980 U.S. dollars)

AMOUNT

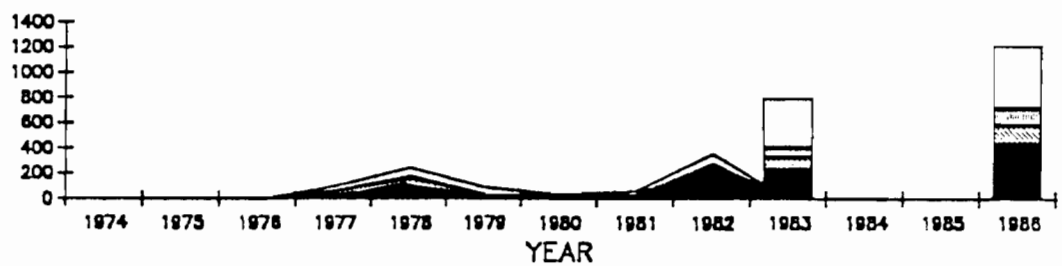
PERU



BOLIVIA



URUGUAY



■ Leaders

▨ Challengers

□ Followers

□ All Others

Source: ECLAC CTC Joint Unit, see Annexes 24-26.

Table 19

TNB STEERING COMMITTEES FOR CASE STUDY COUNTRIES

Bank and group	Natio- nality	Argentina (1985)	Philippines (1983)	Colombia (1985)	Peru (1983)	Bolivia (1981)	Uruguay (1986)	Totals	
								Members	Co- ordinating agent
I. Leaders									
Citicorp	US	5 xx	5 x	4 x	3 xx	3 x	3 xx	23 6	5 3
BankAmerica	US	x	x	x		xx	x	5	1
Manufacturers Hanover	US	x	xx	x	x	x	x	6	1
Chase Manhattan	US	x	x	x	x			4	-
J.P. Morgan	US	x	x					2	-
II. Challengers									
Bank of Tokyo	Japan	2 x	3 x	3 x	4 x	2 x	3 x	17 5	1 -
Chemical Bank	US		x	xx	x			3	1
Bank of Nova Scotia	Canada				x	x	x	3	-
Bankers Trust	US			x	x	x		3	-
Lloyds Bank	UK	x					x	2	-
Bank of Montreal	Canada		x					1	-
III. Followers									
Dresdner	FRG	3 x	3 x	5 x	3 x	1 x	1 x	16 6	- -
Credit Lyonnais	France	x			x			2	-
Barclays	UK		x	x				2	-
Royal Bank of Canada	Canada	x		x				2	-
Indl. Bank of Japan	Japan			x				1	-
Midland Group	UK			x				1	-
National Westminster	UK							1	-
B. Nationale de Paris	France		x		x			1	-

Table 19 (concl.)

Bank and group	Nationality	Argentina (1985)	Philippines (1983)	Colombia (1985)	Peru (1983)	Bolivia (1981)	Uruguay (1986)	Totals	
								Members	Co-ordinating agent
IV. Others on Steering Committees		1	1	2	2	4	1	11	-
Credit Suisse	Other	x					x	2	-
Crocker	US				x	x		2	-
Fuji Bank	Japan		x					1	-
Banco Central	Other				x			1	-
Continental Illinois	US			x				1	-
Banque Paribas	France			x				1	-
Libra Bank	Other					x		1	-
American Express	US					x		1	-
Texas Commerce	US					x		1	-
Total		11	12	14	12	10	8	67	6
Distribution by nationality									
United States (US)		5	6	7	6	7	3	34	6
Japan		1	2	2	1	-	1	7	-
Canada		1	1	1	1	1	1	6	-
United Kingdom (UK)		1	1	2	1	-	1	6	-
F.R. Germany (FRG)		1	1	1	1	1	1	6	-
France		1	1	1	1	-	-	4	-
Others		1	-	-	1	1	1	4	-

Source: ECIA/CIC Joint Unit.

xx: Co-ordinating agent.

x: Member of committee.

such as Bank of America or followers like Dresdner. In Colombia, challengers such as Toronto Dominion and Bank of Nova Scotia clearly outpaced leaders such as Citicorp or followers like Royal Bank of Canada, Midland Group or Dresdner. Why is Citicorp on the Colombian committee if it did not organize nor participate in a single medium term syndicated credit for the public sector of that country? Overall, it seems that there was a tendency to overrepresent leaders and United States banks and to underrepresent challengers, especially of Canadian and Japanese nationality. The answer to these questions seems to reside in the importance of most leaders' exposure in terms of riskier instruments and riskier clients, such as their unguaranteed private sector liabilities in those countries.

The analysis of transnational banks behaviour in these case studies during the boom of syndicated lending to developing countries allows one to draw certain interesting conclusions. The data for the case studies on the organization of syndicated credits during the boom, which reached a value of US\$23.5 billion in constant terms, demonstrated that the top 25 organizers accounted for over half of the total value of capital mobilized for these countries. The leaders and the challengers raised approximately equal amounts, around US\$5 billion each; however, their lending behaviour varied appreciably. The leaders seem to have gained access to the international capital market for virtually all these borrowers; however, during the high cycle when competition intensified in the more price-competitive cases, such as Colombia, Philippines and Argentina, they preferred to organize relatively more for riskier clients, such as Peru, Bolivia and Uruguay, where the price competition was less pronounced (and commission, fee and interest earnings were higher) or to lend directly to the private sector of the more price competitive markets. The challengers clearly preferred to maintain their interest income by organizing ever greater volumes to compensate for finer margins in the more price-competitive cases, while avoiding the riskier clients. In this sense, the Canadian, United States and Japanese challengers tended to be relatively more active organizers than the United States leaders, because they preferred to face severe price competition in the more creditworthy of these cases rather than to expose themselves to higher risk in the other cases.

B. TNB behaviour in the case studies: publicly available information

Following up on the information gathered from the loan contracts between borrowers from these countries and TNBs, this section presents some of the relevant publicly available information indicating the relative importance of United States and non-United States bank exposure in the public and private sectors of these countries. These data, like those referred to previously in respect of Latin America, Mexico and Brazil (figures 2 to 4) consist of statistical information assembled from official sources, that is, the Bank for International Settlements, the World Bank and the United States Federal Reserve. These approximations are not perfect;^{41/} nonetheless, they are of some utility for the purposes at hand, especially when interpreted in the context of the loan contract information already analysed. It should be stressed that these data refer to all kinds of financial obligations (that is, short-term liabilities and direct loans as well as the medium-term

syndicated credits) on a debt-owed basis and are, therefore, conceptually distinct from the syndicated loan commitment information taken from the loan contracts themselves and presented in section A of this chapter.

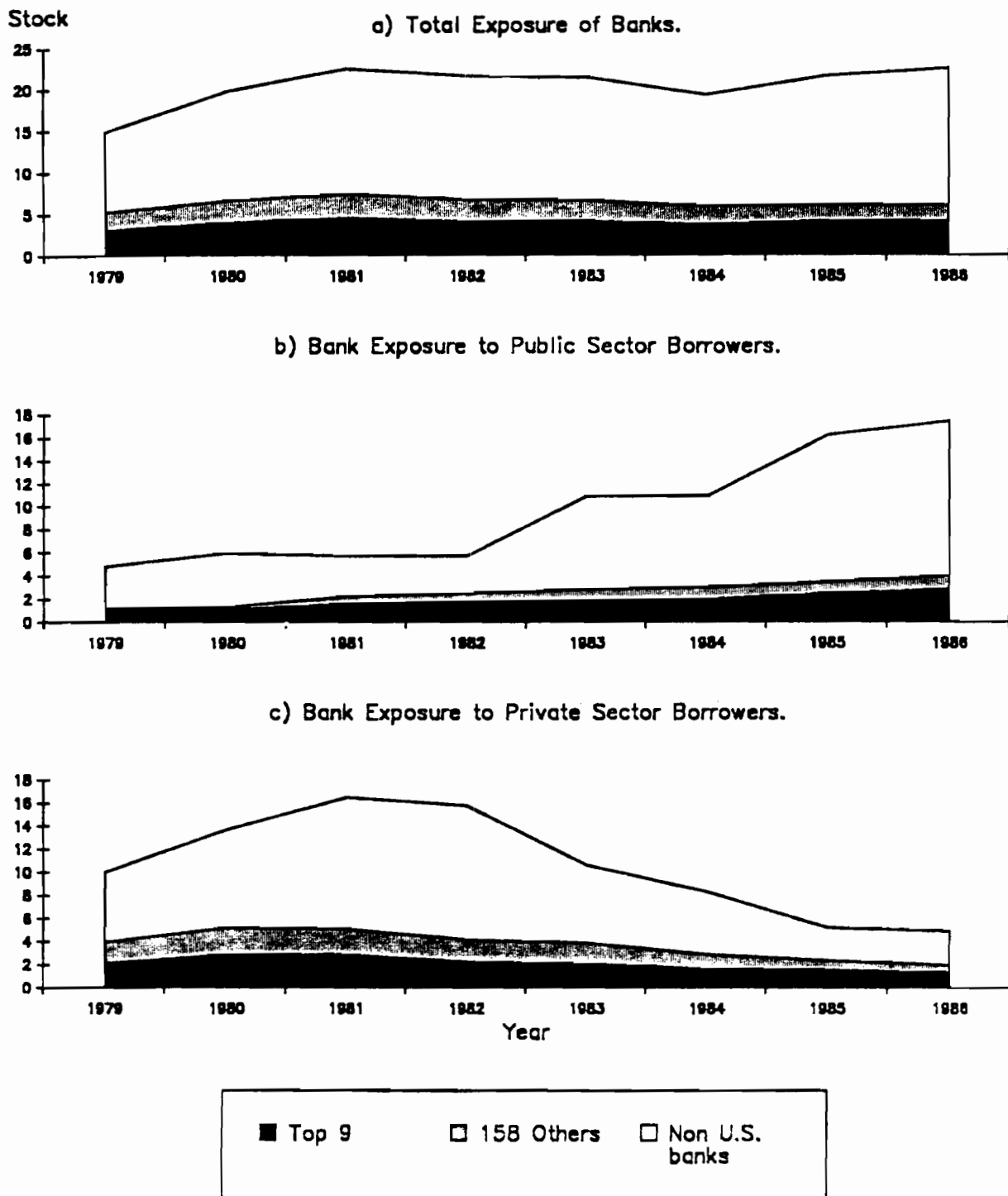
Figures 9 through 11 point out clearly that for the cases of Argentina, Philippines and Colombia, that is, the more competitive market borrowers, during the high cycle of the credit boom, 1979-1982, private sector exposure of all BIS-reporting banks was very important, greater (according to this approximation) than the exposure of those banks to the public sector during the boom. That makes these cases qualitatively distinct from those of Mexico and Brazil, where public sector exposures were larger. A part of the figures for the private sector exposures of non-United States banks during 1981-1983 for the cases of Argentina and Philippines, where speculative activities were pronounced, could reflect recycling of flight capital. Even so, the United States banks, especially the top nine, were relatively more exposed to private sector borrowers.

Another noteworthy aspect of this information is that it was the non-United States banks which most expanded their overall exposures by way of TNB debt restructuring agreements. In other words, it appears that United States banks contributed less than their full share in terms of extending their existing 1982 exposure by way of agreements restructuring debt and providing new money facilities. These figures also seem to confirm that in one way or another important portions of the private sector exposure of banks, were converted into public sector obligations for the borrowing countries.

In the case of Argentina, non-United States banks had a greater exposure than United States ones during the high cycle of the boom, accounting for about two-thirds of total exposure. Of the United States banks alone, the top nine accounted for about 60% of the total exposure during the boom. It should be noted that during the high cycle of the boom the United States banks were relatively more exposed to private sector borrowers than non-United States banks, although the top nine United States banks began to reduce their relatively greater private sector exposure as of 1981, when the Argentine neoconservative policy experiment started to collapse. The non-United States banks did not react until later at the onset of the Argentine war with the United Kingdom over the possession of the Malvinas/Falkland Islands in the South Atlantic. Thereafter, huge changes were registered in the public sector: private sector distribution of the debt even though the total debt figure did not change significantly, except to the extent that the 1985 restructuring agreement brought the figure back to 1981-1983 levels. By way of exchange rate guarantees, bonds issued for the payment of external debt and other mechanisms, a significant amount of non-guaranteed private sector debt was transformed into public sector obligations.^{42/}

With regard to the Philippines, United States banks had a larger exposure than non-United States banks during the high cycle of the boom, amounting to 52-54% of the total during 1979-1981. Of the United States banks only, the top nine held about 70% of the total exposure during the boom. Again, it was the more exposed United States banks that were first to run down their relatively greater private sector lending as the country entered into economic difficulties. However, it was the non-United States

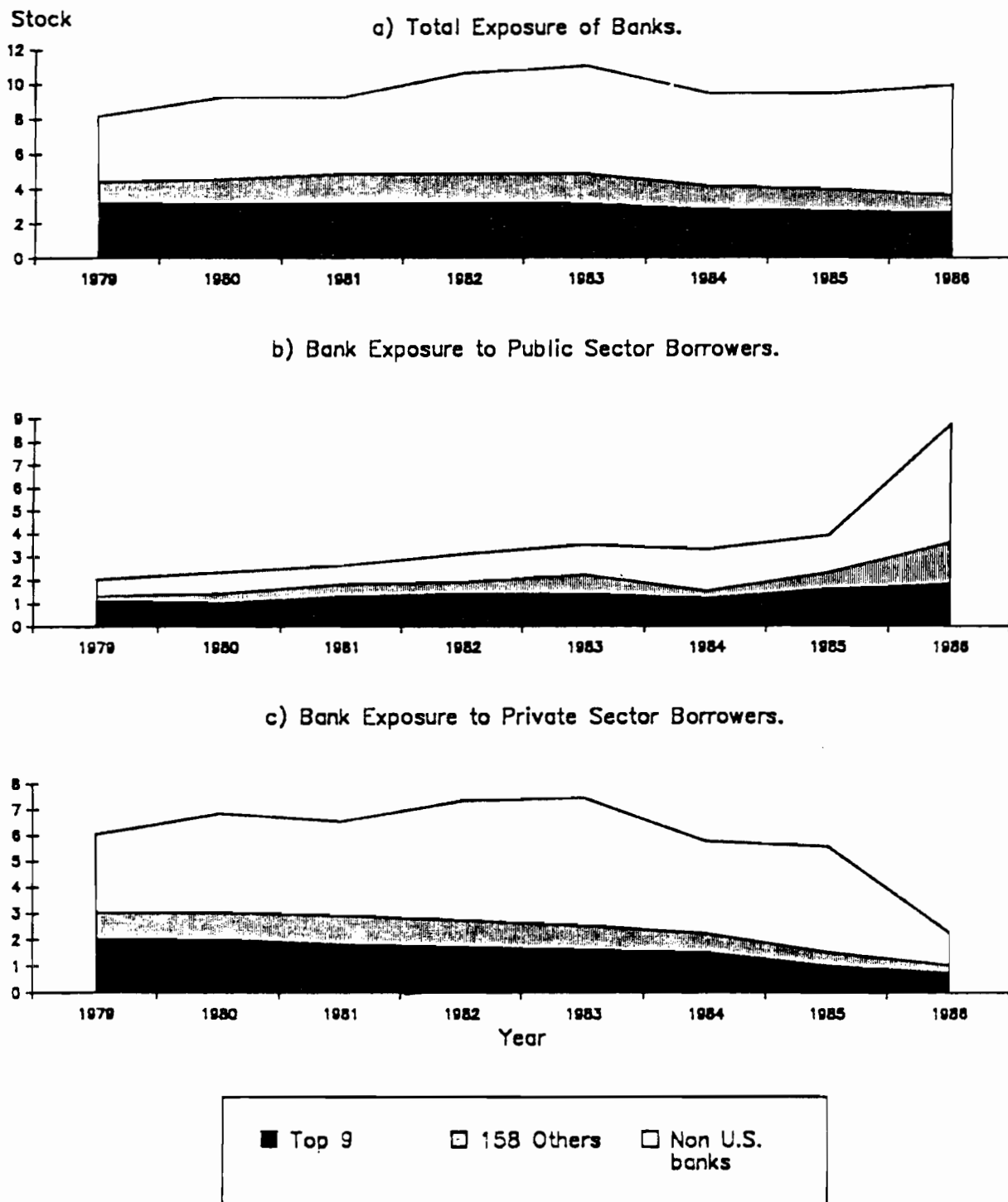
Figure 9

ARGENTINA: BANK EXPOSURE BY SECTOR^a*(Billions of 1980 U.S. dollars)*

1/ Top 9 + 158 Others = Total U.S. banks.

Source: ECLAC/CTC Joint Unit, see Annex 27.

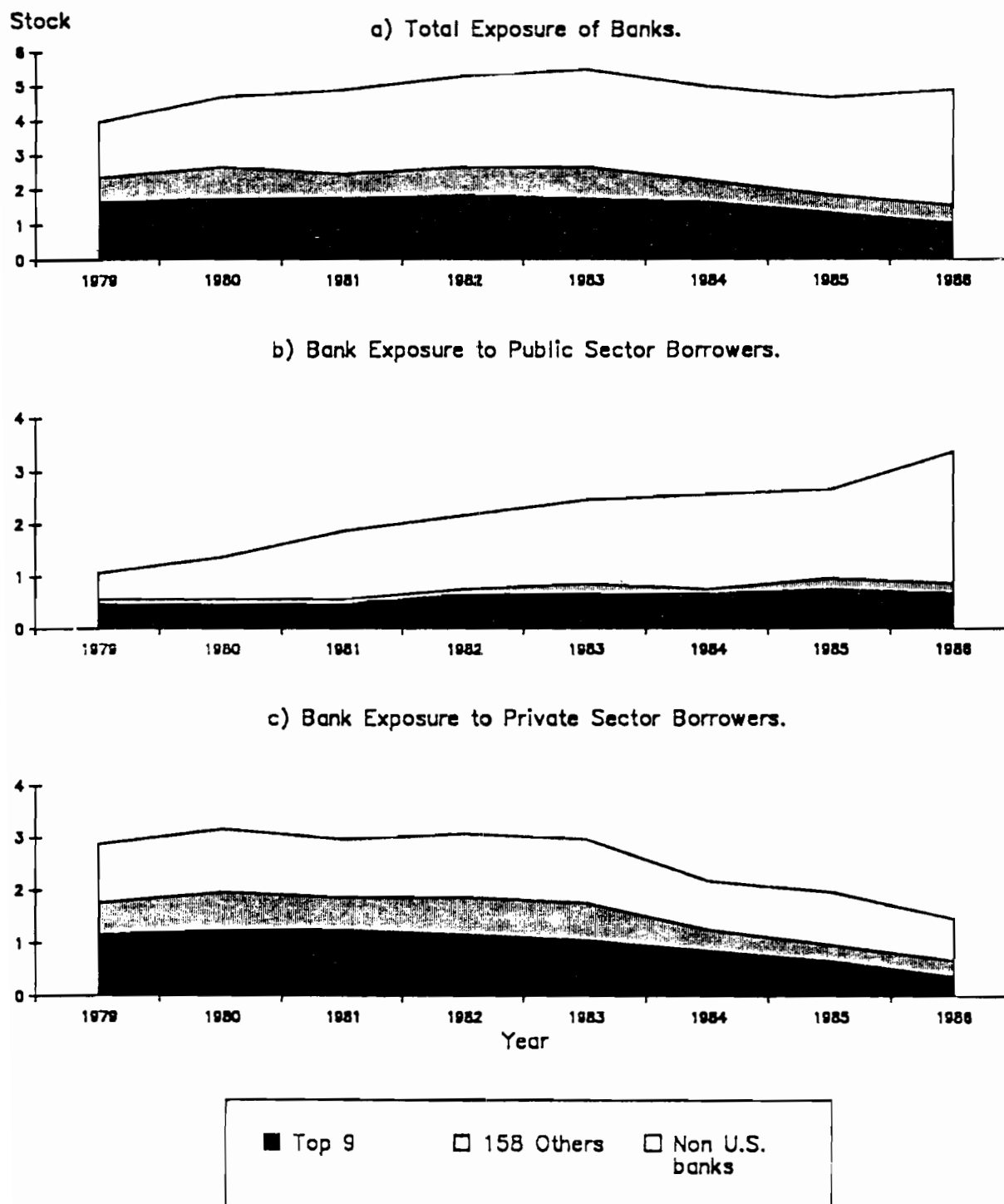
Figure 10
PHILIPPINES: BANK EXPOSURE BY SECTOR^a
(Billions of 1980 U.S. dollars)



1/ Top 9 + 158 Others = Total U.S. banks.

Source: ECLAC/CTC Joint Unit, see Annex 28.

Figure 11

COLOMBIA: BANK EXPOSURE BY SECTOR^a*(Billions of 1980 U.S. dollars)*

1/ Top 9 + 158 Others = Total U.S. banks.

Source: ECLAC/CTC Joint Unit, see Annex 29.

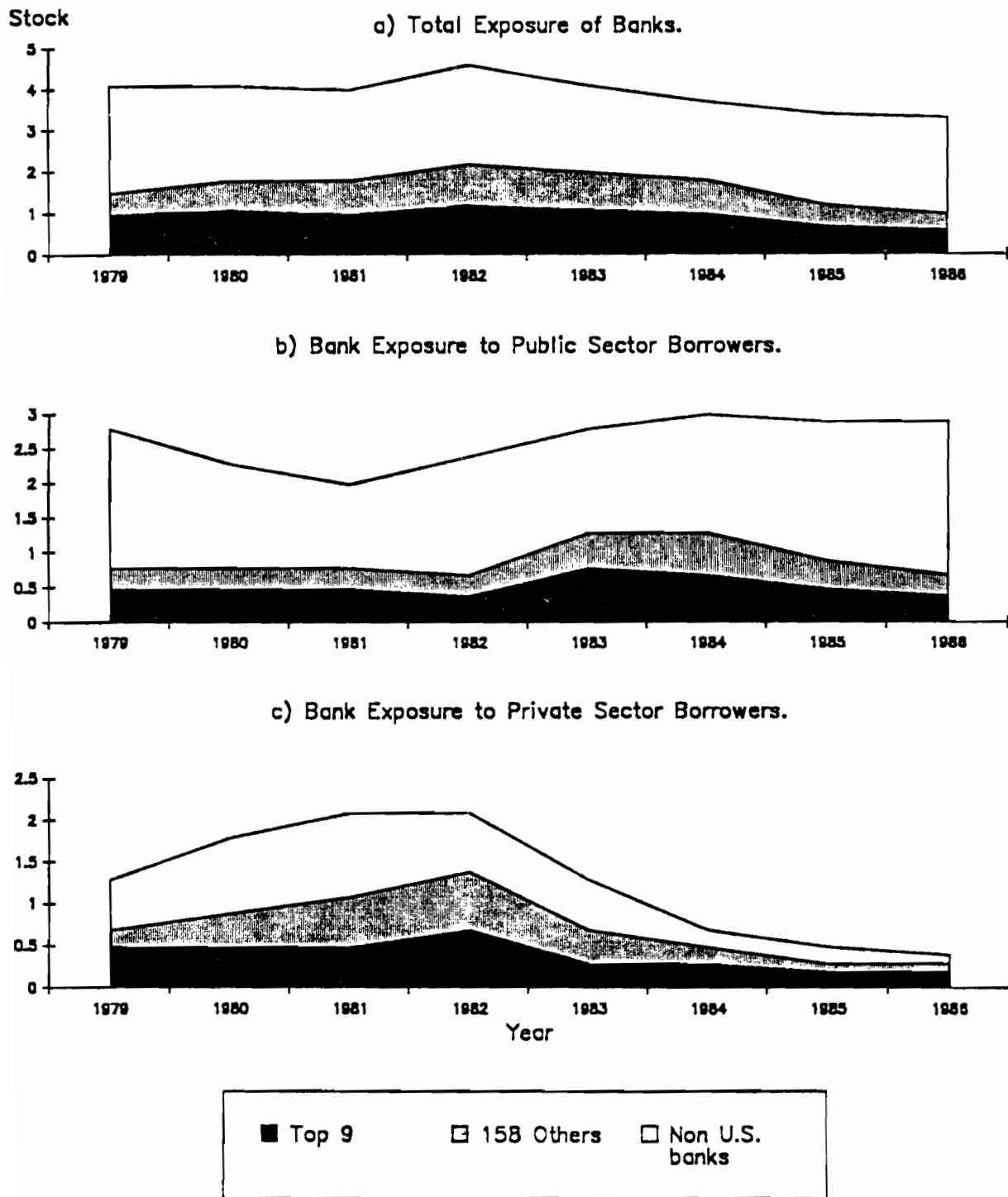
banks which most extended their public sector exposure by way of the 1985-1986 restructuring agreement. That accord incorporated a substantial amount of private sector debt and converted it into public sector obligations.^{43/}

In respect of Colombia, United States banks had a bigger exposure than non-United States banks during the high cycle of the boom, accounting for 50-60% of the total debt between 1979 and 1982. Of the United States group of banks, the top nine held about 70% of the total for that nationality of bank during the boom. It was the very heavily exposed top nine United States banks which were first to begin running down their relatively greater private sector exposure, beginning as early as 1981. The non-United States banks were very much public sector-oriented during the boom. Although Colombia did not have to reprogramme capital payments, it faced great difficulty in putting together its large loan during 1985 most of the resources of which came from the non-United States banks.

Figures 8 and 9 contain information on what have been called the riskier borrowers —Bolivia, Peru and Uruguay— those which proved less attractive to the majority of the principal TNB organizers of syndicated credits. In these cases, public sector exposure was usually the most important element of the total debt situation; however, one should note here that the available information must be interpreted with caution due to the fact that the debt of both Bolivia and Peru was declared value impaired (requiring risk reserves to be established) by United States regulatory agencies thereby causing short-term credit lines to collapse and Uruguay was heavily impacted by voluminous private capital flows from neighbouring Argentina which proved a severe destabilizing factor and which is not included in these figures from BIS reporting sources. One clear conclusion which is apparent in these riskier cases is that the United States banks, most specifically the top nine, were by far the principal nationality of lenders and very much channelled the access of these countries to the international capital market.

In the case of Peru, it might be mentioned that it had run into serious debt servicing difficulties in 1976 and was excluded from the syndicated loan market in the following two years. The data in figure 12 capture the situation of that country as it returned to the international capital market for what could be called its "second cycle" of TNB lending, much of which came in the form of private sector loans from smaller United States and non-United States banks during 1980-1982. Peru had to restructure its debt again both in 1982 and 1983 and thereafter new lending from banks stopped. Non-United States banks contributed most to the 1982 agreement; however, it was the United States ones which did so in 1983. The establishment of transfer risk reserves presumably account for a substantial portion of the steep decline in United States bank exposure beginning in 1985. Private sector borrowing collapsed because of the non-renewal of short-term and direct credits, not because any major private sector obligations were converted into public sector ones. It is important to note that private sector debt was originally excluded from the 10% of exports limit set on debt service in 1985.

Figure 12
PERU: BANK EXPOSURE BY SECTOR^a
(Billions of 1980 U.S. dollars)



1/ Top 9 + 158 Others = Total U.S. banks.

Source: ECLAC/CTC Joint Unit, see Annex 30.

The cases of Bolivia and Uruguay proved to be somewhat confusing with regard to the sectoral distribution of bank exposure because it resulted in some negative stock values for the non-United States exposure to the private sector. For that reason, a sectoral breakdown of bank exposure is not available. Figure 13 presents only a United States: non-United States bank breakdown. This could lead one to question the data, the methodology or to cite the special circumstances in the cases of these smaller borrowers. Given that Bolivia was excluded from the syndicated lending market in 1979 and did not regain access (although a TNB debt restructuring agreement was signed in 1981) and that the Uruguayan financial sector was heavily impacted by short-term capital flows from, and later, to, Argentina, these special situations might be thought to have had an abnormal impact on the approximations of the private sector exposure of non-United States banks thereby producing data not coherent with or susceptible to the methodology applied in the other cases. Nonetheless, the information is useful.

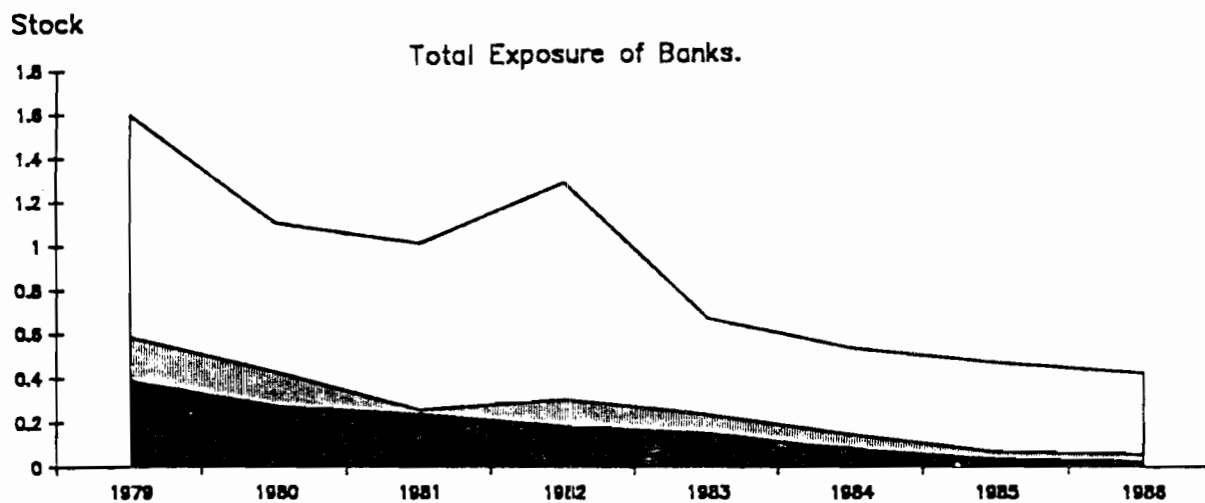
In the case of Bolivia, the United States banks which had dominated bank exposure there were quick to run down their exposure after 1979. Even the restructuring agreement of 1981 (apparently registered in the data for 1982) did not significantly increase United States bank exposure, unlike the case for non-United States banks. Even within the United States bank category, this early restructuring agreement produced a greater relative expansion of exposure for smaller United States banks in comparison to the top nine banks. The classification of Bolivian debt as value-impaired by United States bank regulations as of 1984 only reinforced the tendency for United States banks, in particular, to wind down their Bolivian exposure.

With regard to Uruguay, banks faced a completely different situation in terms of their exposure which kept increasing during the boom period. United States banks, especially the top nine, completely dominated lending to Uruguay during the boom. This case is the one most clearly dominated by the United States leaders. Bank exposures kept increasing in spite of the economic difficulties which began in 1981 due to a number of factors, including the acceptance of the bad loan portfolio of foreign banks operating in Uruguay in exchange for new sovereign loans. In this way significant unguaranteed private sector obligations were converted into public sector ones.^{44/} It is also noteworthy that the restructuring agreements of 1983 and 1986 led to a notably greater expansion of the exposure of non-United States banks in comparison to United States banks.

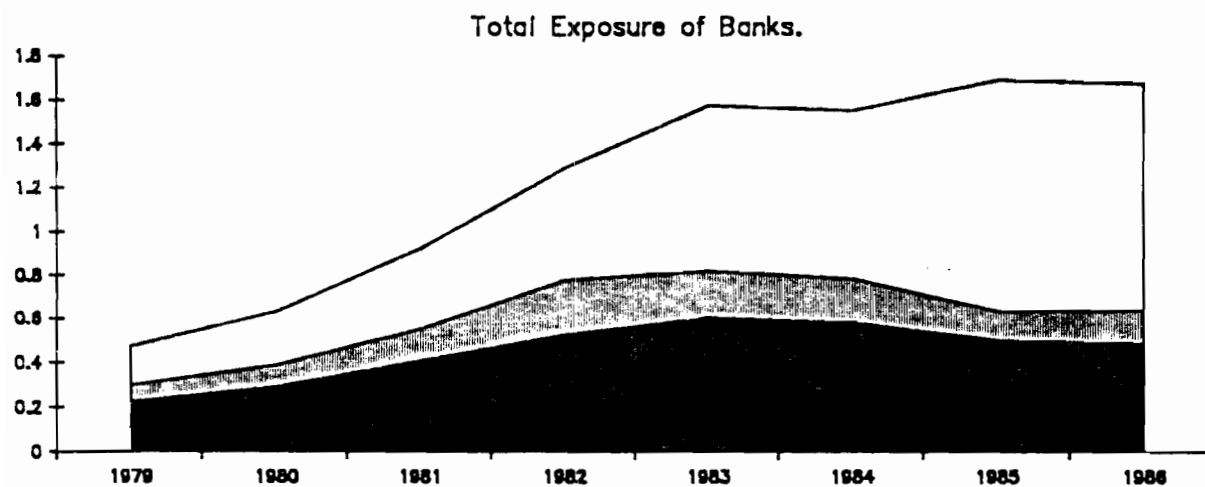
From the foregoing it can be concluded that the publicly available information on the exposure of banks to public and private borrowers in these six case studies provides information which supports in different ways the earlier conclusions in respect of bank behaviour distinguished by category. This is further confirmed when viewed in the context of the information collected from TNB loan contracts in these countries.

In sum, one can detect a kind of cycle in TNB lending to developing countries. The leaders in the late 1960s and early 1970s began to make the transition from low volume direct loans (often guaranteed by a home country institution) to medium term syndicated lending to the most creditworthy of developing countries, mainly Brazil and Mexico. During the first phase of the sovereign lending boom the typical credit was one for Brazil or Mexico

Figure 13
BOLIVIA: BANK EXPOSURE BY SECTOR^a
(Billions of 1980 U.S. dollars)



URUGUAY: 1/
 (billions of 1980 U.S. dollars)



■ Top 9

▨ 158 Others

□ Non U.S.
banks

1/ Top 9 + 158 Others = Total U.S. banks.

which had been organized by leaders in which the principal participants were later members of the same group of top 25 organizer banks, whether challengers or followers. The challengers quickly acquired proficiency and, for the more creditworthy of clients, they began to dominate the organization of syndicated credits. The participants in these challenger-organized credits were mainly other challengers, followers and new entrants. The leaders, facing stiff price competition from the challengers, opted to search out new (more risky) sovereign clients and to make use of more risky instruments, such as unguaranteed loans to the private sector, in the countries where they were already established. In this sense, the credit strategy of the challengers was based more on increased price competition and they compensated for smaller fees and interest income from each individual syndicate they organized by placing greater volumes of credit in what they considered the safer and more creditworthy of clients (such as Brazil, Mexico, the Philippines, Argentina and Colombia). The biggest leaders, on the other hand, had more of a mixed strategy in which they worked out special relationships with riskier clients, be they sovereign (like Bolivia, Uruguay and Peru) or not (private sector ones in the more competitive markets), thereby gaining higher commissions and fees for greater risk associated with their special clients. New entrants tended to follow the challengers by beginning to organize price competitive syndicates once they had learned the business. The initiation of the debt crisis brought this cycle of bank behaviour to an abrupt stop.

The formation of bank steering committees for debtor countries was characterized by the fact that the least prudent of TNBs --the leaders-- dominated the committees which oversaw the negotiation of any subsequent restructuring agreements. The leaders were able to take advantage of their domination of those committees by putting in less money into the restructuring agreements as measured by the increase in their exposure yet getting more share of those agreements by (in some, not all cases) having the previously unguaranteed private sector loans converted, in one way or another, into public sector obligations.

The fact that these leaders all came from the same country meant that the regulatory framework of that country was to play an inordinately important role in the debt restructuring process. The pattern of the debt restructuring process by the leaders and the inordinate importance of the United States regulatory framework were factors in the subsequent reactions of the creditor bloc. These are the topics which will be dealt with in the next chapter.

Chapter III

PRINCIPAL WEAKNESS OF THE DEBT RESTRUCTURING PROCESS: NATIONAL TREATMENT FOR AN INTERNATIONAL CRISIS

In previous chapters it has been demonstrated that the United States banks, especially the big money centre ones, were the most exposed of all banks which had lent to the major debtor countries and that, for the eight debtors for which there is information, these same banks dominated the bank advisory committees established to negotiate and implement the debt restructuring process. For these reasons and others, the policy of United States regulators towards highly exposed United States banks became the single most important element in guiding the debt restructuring process itself and in determining the relative negotiating strength of both banks and debtor countries. In many respects the United States regulatory system defined the realm of possibilities for the debt restructuring process and, as such, an international problem was limited to the parameters of national decision-making in which national priorities naturally took precedence over international ones.

A. Relevant elements of the United States regulatory system

The impact of the United States regulatory system on the international debt crisis is a topic which could easily generate voluminous literature. The aim here is simply to point out a couple of the most relevant elements which indicate most clearly how the realm of possibilities for the debt restructuring process was circumscribed by primarily national considerations.

A first example is that dealing with sovereign immunity. As is well known,^{45/} it was a fundamental precept of international law that sovereign governments could not be sued in foreign courts, or in their own courts, without their consent. It was a corollary of this that sovereign governments, even if they consented to be sued, could claim immunity from the execution of any judgement brought against them. Historically, the United States courts had adhered to the absolute theory of sovereign immunity, that is, that immunity from suit could be claimed in respect of any of the actions of a sovereign government. Previous international debt crises had been dealt with primarily in the context of the absolute theory of sovereign immunity which meant that lenders usually had little legal recourse if, due to an adverse international economic situation, sovereign borrowers did not service their debt. At most the lenders could band together to form a pressure group

supported by their national government, as was the case of the Foreign Bondholders Protective Council formed in 1935 in New York to deal with the international debt crisis which coincided with the Great Depression of the 1930s.^{46/} In other words, the onus was clearly on lenders to carefully assess risk and to demand sufficient premia to cover those risks before any international crisis appeared on the horizon.

For obvious reasons, creditor countries demonstrated increasing interest in a more restricted theory of sovereign immunity, one in which trading or commercial actions of a sovereign government would not be subject to immunity. The United States State Department in May of 1952 established this restricted theory as a matter of executive policy in what was known as the Tate Letter. This initiative was aimed at accommodating the interests of individuals doing business with foreign governments and one of its principal features was that sovereign governments could waive their immunity and thus, for commercial transactions, be subject to suit in United States courts. Nonetheless, many problems remained, particularly with regard to immunity from execution of judgement. In 1976, by way of the United States Foreign Sovereign Immunities Act, the restricted theory of sovereign immunity was implemented by statute in the United States and it firmly established that contractual waivers of immunity, whether in relation to jurisdiction or execution, were to be upheld and not subject to withdrawal. The State Immunity Act 1978 embodies in statute in the United Kingdom the restricted theory of sovereign immunity. Henceforth, sovereign borrowers could be requested to waive their immunity in loan contracts and thereby open up their foreign property used for commercial activity in the United States and United Kingdom to attachment, and execution.

As a natural complement to this restriction of the sovereign immunity of borrowers, new features of standard loan contracts (that is, model contracts with similar clauses used by virtually all lenders) were clauses stipulating that the contracts would be governed by the laws of the United States (usually New York State) or the United Kingdom and indicating the corresponding jurisdictions. With regard to the contracts analysed for the countries covered under this study excluding the case of Colombia,^{47/} over 80% of the total amount contracted for which information was available was governed by United States or United Kingdom law and therefore brought into play the restricted theory of sovereign immunity.

The consequence of these alterations in loan contracts for sovereign borrowers was notable as the following quotation suggests:

"In view of their increased exposure, banks have been concerned in the development of the restricted theory of sovereign immunity and have always insisted, wherever possible, that sovereign immunity in relation to jurisdiction and enforcement should be waived in any relevant financial contracts. The law in both the USA and the United Kingdom is, of course, protective of the interest of international banks and accordingly [became] the rule for banking transactions involving states to be governed by English or New York law and for waivers of immunity to be sought."^{48/}

Effectively, during the process of the high cycle of TNB lending to sovereign borrowers the creditors substantially altered the rules of the

game. Borrowers did have the opportunity to reject or limit the coverage of the relevant clauses of the loan contracts, as did Colombia and Brazil, respectively, nonetheless, most sovereign borrowers, especially those with more limited access to the international capital market, simply acquiesced and, without really contemplating the consequences of that matter, they waived their sovereign immunity in order to obtain a higher volume of credit. That fact made the ensuing debt restructuring process distinct from all previous ones and substantially more difficult for borrowers.

A second example of how the realm of possibilities for the debt restructuring process was circumscribed by primarily national considerations is the administrative procedure of the United States regulatory system, specifically how the regulations affected United States bank behavior.^{49/} From the moment the international debt crisis erupted the United States government made it clear that any negotiations to do with the debt restructuring process (though not the adjustment process) were to be carried out between the debtor and the corresponding bank advisory committees, not with the United States government itself. At the same time, the operation of the United States regulatory system resulted in the fact that the United States banks had little to offer debtors at least during the first phase of the debt restructuring process.

During the period which encompassed the high cycle of the international TNB lending boom and the debt restructuring process the United States banks, especially the most internationally active ones (that is, the big money centre banks), were facing increasing international competition from foreign banks, as was suggested in chapter I. In order to face that competition, the big United States banks resorted to greater risk-taking, first in respect of international credits placed with sovereign borrowers, later with regard to new instruments (note issuance facilities, currency and interest rate swaps, floating rate notes, standby credits for mergers and leveraged buy-outs, etc.), particularly off-balance sheet activities.^{50/} This placed United States bank supervisors in a dilemma because during the boom in international bank lending new restrictions on excessive risk-taking by United States banks would have limited the United States banks' ability to compete internationally with foreign banks and during the first phases of the debt restructuring process the rapid implementation of new capital adequacy and provisioning requirements designed to ensure the safety of the United States financial system would have severely restricted the big banks in competing both internationally and nationally (with the expanding regional banks within the United States). National priorities, naturally, were the most important ones for the United States bank supervisors and the United States regulatory system as a whole, in spite of the fact that their initial impact on sovereign borrowers was adverse.

Earlier, as the boom in TNB lending to sovereign borrowers entered its high cycle in 1978, United States regulators had been preoccupied by the country risk inherent in the sharp rise in the international exposure of United States banks. An Interagency Country Exposure Review Committee (ICERC) was established to determine a transfer risk rating for individual countries so as to assist United States banks to avoid overexposure and, consequently, to suffer losses. The system functioned in the following manner:^{51/}

"Three times each year, the Country Exposure Review Committee met and categorized countries into one of four categories: strong, moderately strong, weak, and classified. According to federal laws, each bank had to file an examination report for every case where country exposure exceeded 5% of capital in weak countries, 10% in moderately strong countries, or 25% in strong countries. More detailed reports must also be submitted if country exposure exceeded 10% in weak or 15% in moderately strong countries. In any case, the maximum exposure to any one borrower could not exceed 10% of capital. In making determinations about the level of transfer risk in lending to various countries, ICERC had available a considerable amount of information. To provide a starting point for analysis of country conditions by the ICERC, comparable quantitative information was developed for about 70 countries. In addition to compiling this information, economists at the Federal Reserve Bank of New York and the Board provided ICERC with current studies covering specific countries --studies that include available information from the IMF. ICERC also received oral briefings from U.S. Treasury staff on conditions in the countries under review. Finally, before each meeting, examiners visited a number of banks to obtain views on the countries and the current and future lending plans of the banks."

Had this system been implemented rigorously, it is difficult to imagine how the major United States banks could have reached the levels of exposure shown for Brazil and Mexico, for example, in table 10 (that is, over 100% of their primary capital, on average). The explanation is that: "although the new procedures adopted in 1978, together with the introduction of the country exposure lending survey, represented improvements in the supervision of country risk, in retrospect the system clearly did not have sufficient force or impact on banker attitudes. Indeed, international lending by a growing number of U.S. banks accelerated in the wake of the increased demand for credit following the second round of oil price increases in 1979".^{52/} Competitive pressures it appears, did not allow the major United States banks to heed the advice of the United States regulators. Other informed commentators suggest that it was more than that, the United States regulators actually facilitated the increase in lending by reinterpreting an existing and obligatory regulation dealing with the concentration of risk: "Another aspect of prudential supervision, one that was obviously overlooked in the 1970s and early 1980s, is the requirement that the bank not commit more than 15 per cent of its capital in loans to any borrower. In fact, the loans to the Brazilian government and to the Mexican government greatly exceeded 15 per cent of capital for many of the large US banks, but the rule was not invoked because the regulators allowed the banks to treat the various official borrowers, such as parastatals, central government, and development banks, in Mexico and Brazil as distinct borrowers even though they were all backed by the same government guarantee."^{53/}

Thus, competitive pressures during the high cycle of sovereign lending led the United States regulators (as well as the United States TNBs themselves) to weaken or soften the application of existing, as well as new, prudential bank supervision regulations. Apparently, the priority to compete internationally took precedence over the preoccupation with excessive risk-taking by the big United States banks.

As has been suggested, a similar situation held with regard to the first phase of the debt restructuring process; however, the preoccupation was now capital adequacy and provisioning to face existing exposure not measures to limit new potential risks. Although the United States federal banking agencies had set quantitative guidelines for minimum capital standards beginning in 1981, it was the International Lending Supervision Act of 1983 which instructed those federal bank supervisory agencies to "establish examination and supervisory procedures to assure that factors such as foreign currency exposure and transfer risk are taken into account in evaluating the adequacy of the capital of banking institutions".^{54/} It should be remembered that the fundamental purpose of bank capital requirements by supervisory institutions is to instill discipline on bank safety and financial system security. During the late 1970s and early 1980s the capital ratios (that is, primary capital compared to total assets) of the major internationally active banks of most OECD countries had been stationary or falling, indicating greater vulnerability and reduced safety, given the doubts surrounding the quality of international claims on major developing country debtors which arose in 1982.^{55/} This situation naturally caused concern among bank supervisors in all the OECD countries; however, the competitive positions of national banks kept complicating attempts to co-operate and implement more prudent measures as the following quotation suggests: "A broad consensus has emerged that high priority should be attached to restoring sound capital ratios and to improving the profit performance in the face of the increased vulnerability of banking that has resulted from greater economic and financial instability and the growing interdependence of financial institutions and markets. Indeed, the principle that greater emphasis should be put on capital adequacy as a means for strengthening supervisory safeguards and for instilling greater discipline in risk assessment and control has received strong support from the authorities of all Member countries. The issue of capital adequacy for supervisory purposes cannot be dissociated from considerations relating to the competitive position of banks. In this respect, the internationalization of banking has brought into the limelight the lack of uniformity in the regulatory, accounting and tax treatment applying to capital and provisioning. Greater international compatibility on this score is increasingly perceived as a desirable objective not only for setting a more level playing field but also for reducing the scope for competitive pressures leading to an unhealthy erosion of profitability which might hinder current efforts towards bank capital enhancement."^{56/} A bank facing lower capital adequacy requirements has a significant leverage and price advantage over foreign competitors in the international market. A similar case holds for provisions and it was found that country differences with regard to provisioning policies and practices in respect of risks associated with cross-border lending had actually increased.^{57/} In other words, it is extremely relevant to understand how United States regulations dealt with the trade-off between national financial system safety and international competitiveness, and what kind of margin this left for concessions to the major developing country debtors experiencing macroeconomic disequilibria which extremely limited their debt service possibilities.

In the United States, doubtful debt is usually dealt with by way of the creation of provisions for loan losses according to the degree of doubt surrounding the debt in question. Loan loss reserves are created for

specific bad debts. Delinquent loans are those with interest more than 30 days overdue. Non-performing loans are ones with interest payments more than 90 days behind schedule. Bad debts are loans with interest payments more than 180 days overdue (as well as being not secured and in the process of collection) and subject to obligatory write-off before dividends can be paid. A definite cut-off point is reached after 180 days. A similar regulatory framework pertains to international exposure in respect of transfer risk. The 1983 International Lending Supervision Act required that banks establish Allocated Transfer Risk Reserves (ATRR) against certain assets whose value had been found by the agencies to have been particularly impaired by protracted debt service problems arising from transfer risk. These problems were identified by, first, the protracted inability to make payments as manifest in such factors as non-payment of full interest due, a failure to comply with the terms of any restructured indebtedness or a failure to comply with any IMF or other suitable adjustment programme, among others, or, second, the non-existence of definite prospects for the orderly restoration of debt service. These credits were categorized as substandard, value-impaired or loss according to the degree to which a borrowing country is in non-compliance with the terms of its external debt obligations. The rules were intended to operate in the following manner: banking institutions shall establish an Allocated Transfer Risk Reserve (ATRR) for specified international assets when required under these rules. At least annually, the federal banking agencies shall jointly determine which international assets are subject to risks warranting establishment of an ATRR. An ATRR is to be established by a charge to current income and shall not be considered as part of capital and surplus or allowances for possible loan losses for bank regulatory, supervisory or disclosure purposes. The initial year's ATRR normally will be 10% of the principal amount of the asset on which reserves must be kept as determined by the federal banking agency who will notify each banking institution it supervises of the amount of any ATRR, and whether ATRR may be reduced.^{58/} In other words, strict rules exist in respect of these reserves; however, their implementation rests on a substantial discretionary or judgmental element on the part of the bank supervisors.

In August of 1982 the international debt crisis became apparent with Mexico's inability to service its debt and by the following year most of the player debtor countries were having difficulties servicing their bank loans. In the context of the new United States International Lending Supervision Act of 1983, one would have expected that the most exposed United States banks would be instructed to set aside huge allocated transfer risk reserves, at levels which would have seriously compromised their capital bases and might have challenged the United States banking system as a whole as these reserves were used to write-off bad debt subsequently, something which even might have provoked bank failures. Any bankruptcy of a large money centre institution would have caused severe damage for the shareholders, the creditors in the interbank market, deposit-holders with more than US\$100 000 in the bank, generally, the national financial system as a whole and would particularly affect the ability of the banking system to compete internationally. These consequences were apparently too harsh to contemplate; so the United States bank supervisors allowed these same over-exposed banks (in the context of debt restructuring agreements) to further extend their exposure to the public sector of the developing countries with the large debts. The so-called new money facilities were, for the most part, the means by which the banks paid

themselves the interest due on their exposure to the borrower in question, thereby avoiding having their loans declared value-impaired and in fact it allowed them to carry assets of dubious value at full face value. As a consequence, banks faced few requirements in terms of allocated transfer risk reserves,^{59/} their capital (and gearing ratios) did not suffer, they were able to compete vigorously in international markets (in spite of their overexposure to major developing country debtors) and their profits increased (especially as fee income from off-balance-sheet operations rose sharply). In other words, the more exposed United States banks reacted to the international debt crisis in the first phases not by establishing appropriate reserves and reducing operations to more prudent levels in accordance with the new capital adequacy and provisioning requirements, rather they took advantage of an accounting trick and off-balance-sheet activities which were not constrained by capital ratios --both embodying increased risk-- to bolster their profit performance. This no doubt is what provoked an OECD report to comment: "A matter for concern in this regard is that banks should not be induced by supervisory measures to accept a deterioration of portfolio quality as a means for improving profitability in the short run. Another is the tendency for banks in some countries to follow a strategy of alleviating the burden of gearing or risk-asset ratios through greater reliance on off-balance-sheet business which permits economies on capital whilst contributing to a flow of fee income. Largely in response to this latter development, a review of capital adequacy requirements is currently underway with a view to improving the coverage of such business in capital adequacy tests and to ensuring that liabilities and commitments are properly matched by capital resources."^{60/}

Similar to the situation for the risk concentration in sovereign borrowers during the high cycle of the lending boom, it appears that the discretionary powers of the bank supervisors of the United States regulatory system were used during the debt restructuring process, contrary to the spirit of the regulations to allow the most exposed banks to keep doubtful international loans on their books at face value without establishing the corresponding reserves or formally complying with capital adequacy requirements. At the same time, the lack of reserves meant that no concessions could possibly be offered to the major debtors during the first phase of the debt restructuring process and few were forthcoming thereafter. The nature of the United States regulatory system was such that the principal negotiations relating to the debt restructuring process could be viewed as those between the United States bank supervisors and the most exposed United States banks, not those between the bank and the debtor countries. This is so because the behaviour of these most exposed banks was defined to a certain extent by the discretionary power of the bank supervisors within the context of the regulatory system. By guiding bank behaviour in a certain way the bank supervisors effectively established the parameters of the debt restructuring process in the sense that banks had little to offer debtors in the form of debt relief. The bank supervisors gave United States banks time to recover. National priorities --system security and the international competitiveness of United States banks-- took precedence and the consequence was that most of the costs of the international debt crisis were shifted to the debtors, especially during the first phase of the debt restructuring process. Given that the most exposed United States banks strongly influenced the discussions with the debtors via their dominance of the bank advisory committee, the

parameters established by the United States regulatory system were directly transferred to those forums.

In summary, the United States regulatory system had an important impact on the treatment of the international debt crisis. Relevant elements include the contractual implications of the implementation of the restricted theory of sovereign immunity and the impact of discretionary powers in the interpretation of risk concentration, capital adequacy and provisioning requirements on the part of bank supervisors. National priorities came to the fore in guiding bank behavior and, concomitantly, the initial parameters established for the debt restructuring process greatly favoured the creditors as the following analysis of relative negotiating power shall make clear.

B. Relative negotiating power during the 1982-1986 period

The debt restructuring process, taken in the context of the debtors' stabilization and adjustment programmes, consisted of two clear initial phases: the first one of 1982-1984 in which the emphasis was almost exclusively on adjustment, and the second one of 1985-1986 in which the emphasis on adjustment was tempered by considerations of growth. For the sake of convenience, these are respectively called the forced adjustment phase and adjustment with growth phase. The relative negotiating power of the creditors and debtors changed appreciably in the transition from one phase to the other. The new situation beginning as of 1987 will be touched upon in the next section.

i) The forced adjustment phase. The first actions taken with regard to the debt crisis were emergency measures aimed essentially at safeguarding the international financial system and its national components. Table 20 points out that impressive co-operation was demonstrated by multilateral institutions (at first, only the IMF), the BIS, the United States government (and its agencies) and the TNBs, at least with regard to the debtors where TNB exposure was greatest. It was only after successful emergency rescue packages were in place that a more co-ordinated strategy to deal with the problem was developed by creditor agencies.

The debt strategy reflected the dominant interpretation of the nature of the debt difficulties at that time; that it was a liquidity problem rather typical of the recent debt cycle of several European countries, especially Turkey.^{61/} One prominent banker viewed the debt problem somewhat similarly as a play of three acts: a classic balance-of-payments crisis up to the end of 1984, a subsequent period of more thorough domestic adjustment followed at some indefinite future date by a resumption of credit flows.^{62/} The initial strategy for dealing with the debt problem reflected this interpretation of events. This strategy, put together essentially by the United States Administration, was proposed to ensure that major debtors would continue servicing their debts and thereby regain their creditworthiness. Its principal elements can be summarized as follows:

- Debtor nations would generate a large portion of the dollars they needed to pay interest by increasing their exports and cutting their imports;

Table 20

FINANCIAL PACKAGES FOR MEXICO, BRAZIL, ARGENTINA
DURING 1982-1983

(Billions of US dollars)

Financial support	Mexico	Brazil	Argentina
<u>IMF - total</u>	<u>3.9</u>	<u>5.9</u>	<u>2.2</u>
Stand-by	-	-	1.7
Extended Fund facility	3.7	4.6	-
Compensatory finance	0.2	1.3	0.5
<u>IBRD - total</u>	-	-	-
<u>Bank for International Settlements</u>	<u>0.9</u>	<u>1.2</u>	<u>0.5</u>
<u>United States government</u>	<u>2.9</u>	<u>1.9</u>	=
Oil payments	1.0	-	-
Commodity credit	1.0	-	-
Federal Reserve	0.9	0.4	-
Treasury	-	1.5	-
<u>Official trade credits</u>	<u>2.0</u>	=	=
<u>Transnational banks</u>	<u>25.2</u>	<u>8.9</u>	<u>14.5</u> */
Debt restructuring (1983)	20.2	4.5	13.0 */
New money facilities (1983)	5.0	4.4	1.5 */
<u>Total</u>	<u>34.9</u>	<u>17.9</u>	<u>17.2</u>

Source: ECLAC/CTC Joint Unit on basis of information from Cline, W.R., "International debt and the stability of the world economy", Policy Analyses for International Economics, 4, Institute for International Economics, September 1983, p. 42, and IBRD, Developing Country Debt, Washington, D.C., February 1987, pp. XXVI-XXVIII.

*/ This agreement in principle was not implemented.

- Debtor nations would be given more time in which to repay their maturing loans;

- Commercial banks would make new loans so that debtor nations could avoid falling behind on their interest payments to the banks;

- The IMF, in addition to lending modest amounts of its own funds, would ensure that the debtors were implementing essential economic reforms;

- The negotiation process was to be of a strictly individual or case-by-case nature as far as the debtors' participation was concerned and it began as basically a year-by-year exercise. All participants —banks, debtors countries and the IMF— indicated their willingness to comply with this strategy.^{63/}

There was little doubt that the debtor countries had a serious adjustment task ahead of them, given that most of them had become overindebted to some degree precisely because they used the easily-available syndicated bank credits to avoid making adjustments. As an ECLAC study has shown,^{64/} the basic objective of the new adjustment policies was to eliminate that part of the deficit on current account which could no longer be financed with the net inflow of external loans and investment or with international reserves. To this end, many governments applied —to different degrees and in different ways— two sets of economic policy which in theory are essential to the adjustment process. The first set includes policies rather typically aimed at controlling the aggregate demand and the second aimed at changing the relative price of internationally tradeable goods vis-à-vis the price of non-tradeable goods and services, e.g., exchange policies, tariff policies, or export promotion policies. These policies were implemented generally in the context of interrelated credit agreements with the IMF and the bank steering committees. Table 21 demonstrates some of the main characteristics of the IMF-supported programmes for the principal Latin American debtors during 1983.

These IMF-supported programmes possessed a general demand management orientation as far as policy assumptions and performance criteria are concerned. The importance of the financing arranged by the IMF itself depended more on its relation to the deficit on current account than simply its magnitude. The timing of the first agreements is significant in the sense that Argentina, Brazil, Chile and Mexico all signed agreements in January of 1983. Uruguay followed in June of that same year. The IMF was obviously concerned with signing up the biggest debtors (Mexico and Brazil) and those with the most serious balance-of-payments disequilibria (Southern Cone countries). The most important aspect of these IMF-supported programmes was that they served as a seal of approval to facilitate rescheduling negotiations with the bank steering committees.

Table 14 gave a very good picture of the essential nature of the principal restructuring agreements of 1983. Like the IMF-supported adjustment programmes, the emphasis was on coming to agreement first with Mexico and Brazil, second, with the Southern Cone countries and only thereafter, with the other debtors, as is demonstrated by the terms and conditions of the agreements and the new money and other facilities made

Table 21

LATIN AMERICA: CHARACTERISTICS OF IMF-SUPPORTED PROGRAMMES IN EFFECT FOR PRINCIPAL DEBTORS DURING 1983

Date of agreement	Country	Type of agreement	Net financing from IMF (1983)				Performance criteria				
			Millions of SDRs	As % of deficit on current acct.	% variation of balance capital acct.	Net foreign assets	Payments arrears	Net domestic assets	Net domestic bank credit requirement	Overall borrowing	External indebtedness
7-VI-82	Peru	EFF	95	8	-2	CB/BN		CB/BN		PS	PS
1-I-83	Mexico	EFF	903	26	deficit	CB		CB		PS	PS
6-I-83a/	Brazil	EFF	1 339	19	-44	CB/BdB	t	CB/BdB		PS	PS
10-I-83	Chile	SB	519	51	-57	CB		CB		PS	PS
24-I-83	Argentina	SB	1 121	63	5	CB	t	CB		PS	PS
22-VI-83	Uruguay	SB	83	99	deficit	CB		CB		PS	PS
26-VI-83	Panama	SB	88	25	-29				PS		
25-VII-83	Ecuador	SB	79	8	-34	CB	t	CB	PS b/		PS

Policy understandings c/

Duration (months)	Country	Exchange rate	Wages & salaries	Interest rates	Public sector deficit	Current income	Current expenditure	Current savings	Capital expenditure	Total expenditure	Rates: public enterprises
36	Peru	+	-	*	+	+	-	+	+	-	+
36	Mexico	+	-	*	+	+	-	+	-	-	+
36	Brazil	+	-		+	+	-	+	-	-	+
24	Chile	+	-	*	+	+	-	+	-	-	+
15	Argentina	+			+	+	-	+	-	-	+
24	Uruguay	+	-		+	+	-	+	-	-	+
18	Panama				+	+	-	+	-	-	+
12	Ecuador	+	-	*	+	+	-	+	-	-	+

Source: Ground, R.L., "A Survey and Critique of IMF Adjustment Programmes in Latin America", in ECLAC, Debt, Adjustment and Renegotiation in Latin America: Orthodox and Alternative Approaches, Lynne Rienner Publishers Inc., Boulder, Colorado, 1986.

SB = Stand-by arrangements; EFF = Extended Fund facility; CB = Central Bank; BdB = Banco do Brasil; BN = Banco de la Nación; t = total elimination; PS = Public sector; + = Increase in real terms; - = Decrease in real terms; * = Positive in real terms.

a/ Agreement replaced first by one of 24-11-83 later by one of 15-IX-83.

b/ Net public sector indebtedness to Central Bank only.

c/ Prohibition of restrictions on foreign trade, factor payments and external capital flows as well.

available. These first agreements imposed a very short time frame for debt rescheduling.^{65/} Any interest arrears had to be paid before the rescheduling agreement took effect. While the first agreements reprogramming principal payments generally dealt with maturities during 1983-1984 (excepting Brazil, Peru and Ecuador), the new credits made available to pay upcoming interest were negotiated annually. The negotiation process itself took up to six months in reaching agreement. In this sense, the negotiations tended to take on an ongoing or continuous character and the ability of the banks to negotiate "en bloc" via their steering committees allowed them great influence over the debtors which negotiated individually. The most exposed United States banks (which dominated the bank steering committees) had been given additional time to recover from the debt crisis by way of the discretionary interpretation of United States regulations by federal banks supervisors and, as has been indicated, the parameters of the negotiations did not allow for any debt relief. Thus, between the IMF supervision of the preparation and implementation of adjustment and stabilization programmes, the impact of United States regulations in putting narrow parameters on negotiations and the banks' emphasis on short time frame, the debtor countries were subject to significant external constraints, yet at the same time they received little relief.

Still using Latin America as the example, it can be observed that an extraordinary adjustment was achieved during 1983-1984 viewed from the balance-of-payments perspective. During the first phase of adjustment alone, about US\$100 billion was transferred abroad, making it one of the greatest financial adjustments in history.^{66/} The rapidity of the adjustment and its magnitude in terms of the net transfer from registered foreign financial transactions demonstrate unequivocally that the adjustment effort of the region was nothing short of phenomenal. Between 1981 and 1984 the current account deficit of Latin America measured dropped from over US\$41 billion to nearly zero. Impressive as this figure is, it is pertinent to consider the cost of that adjustment. Table 22 provides some of the relevant information for the major debtors of the region. It is clear that the adjustment was made possible essentially by cutting imports to the bare minimum and drastically reducing investment (the regional average for both fell to two thirds of their value for 1980) which naturally led to a severe decline in the economic performance of those countries. In general, GDP per capita fell by 2.4% a year during 1982-1984, urban unemployment surged and, in many cases, inflation took on a virulent character. Questions were being raised about the cure being worse than the infirmity. Basically, the huge adjustment had been made at extreme social and economic cost.

Given the emergency and obligatory nature of the adjustment during this period it comes as no surprise that most countries acquiesced to these harsh measures. Chile, Mexico and Uruguay ^{67/} then facing the greatest debt burdens, proved to be the most acquiescent or obliging as far as their negotiations with --and concessions made to-- the IMF and TNBs were to demonstrate.^{68/} Bolivia, experiencing a period of severe economic difficulty, and Argentina, trying to recover from a lost war found it difficult to accept similar terms in their negotiations with the IMF and the transnational banks. Great efforts were made by the OECD governments, the multilateral institutions and the banks to "rescue" Argentina ^{69/} and bring

Table 22

LATIN AMERICA: ADJUSTMENT INDICATORS FOR MAJOR DEBTOR COUNTRIES, PHASE ONE: 1983-1984

Country	Deficit on current account as % of GDP	GDP per capita	Private consumption (1984 values based on index 1980 = 100)	Gross investment index 1980 = 100)	Value of imports	% increase urban unemployment ^{a/}	% increase consumer prices (1984)
Argentina	5.9	3.4	87.0	90.6	48.9	47.6	688.0
Bolivia	10.5	6.1	80.9	90.3	60.5	77.9	2 177.2
Brazil	4.4	0.0	91.9	96.6	69.5	61.4	203.3
Colombia	5.6	4.0	100.3	107.8	109.8	97.5	18.3
Chile	17.4	9.0	90.2	93.1	61.2	69.2	23.0
Ecuador ^{*/}	8.7	2.2	96.8	112.7	66.1	77.0	25.1
Mexico	6.8	-2.1	97.5	101.2	67.3	62.6	59.2
Peru	8.4	1.9	87.2	107.1	62.6	78.1	111.5
Uruguay	6.2	2.4	82.5	70.0	48.1	51.8	66.1
Venezuela ^{*/}	-7.6	-13.0	81.2	92.4	62.7	71.9	13.3
Latin America	5.4	0.0	92.0	97.7	67.4	68.1	185.2

Source: ECLAC/CTC Joint Unit on basis of information supplied by ECLAC, Division of Statistics and Quantitative Analysis.

^{*/} OPEC member.

^{a/} Per cent increase in urban unemployment rate between end-1981 and end-1984.

it into line with the pattern of the region and of the forced adjustment phase. Peru,^{70/} having restructured its TNB debt in 1983, still could not keep up payments in 1984. Bolivia ^{71/} was continually urged to pay up its accumulated arrears; however, for the most part the continuance of arrears was quietly ignored. Nonetheless, in general, the response of the great majority of major debtors was to implement extremely harsh adjustment programmes supervised by the IMF while the TNBs self-financed a good part of the interest due on their exposures and restructured capital payments.

With hindsight, this first phase can be easily considered the forced adjustment phase because the multilateral institutions, the banks and the OECD governments closed ranks and demanded an exceptional adjustment effort from debtor countries and it was forthcoming.^{72/} The central criticism of this first phase is that, by treating the debt crisis as liquidity problem, the creditors participated only minimally in the adjustment burden which was transferred almost completely to the debtors. The OECD governments, especially the United States one, rejected any kind of global or multilaterally-negotiated solutions and although they provided some emergency resources (limited to the biggest debtors) they allowed their banks to escape from any significant direct contributions to the resolution of the debt crisis. The IMF more or less tripled its net transfers to debtors; however, the magnitude of those transfers as well as those from multilateral development banks remained minor in comparison to the magnitude of the current account deficit of those debtors.^{73/} The banks rescheduled principal payments only on the stiffest of terms. They also restricted their new money facilities such that the growth of exposure which was 7% in 1983 fell to slightly over 3% in 1984. Furthermore, the much-heralded return to voluntary lending by banks proved ephemeral in spite of the massive adjustments accomplished by debtors.^{74/} In sum, the debtors were forced to adjust in the worst of conditions, with few new resources available to them and facing a dismal external economic environment. Essentially, they alone had to withstand the total cost of that adjustment burden: chronic recession. The debt crisis was not viewed in terms of renewed development in these debtors countries rather it seemed that more concern was given to measures for any failure to meet IMF adjustment or stabilization targets ^{75/} in spite of the fact that "debtor governments had demonstrated a willingness to cut their nations' living standard further and faster than even the most sanguine creditor had dared to hope".^{76/}

ii) The adjustment with growth phase. At the beginning of the second phase of the restructuring process, the realization that the phase one diagnosis was faulty had become widespread among the OECD governments and multilateral institutions. There appeared to be a recognition that 1985 was to be a critical turning point in the restructuring process.^{77/} A study by the World Bank commented: "From the perspective of development, therefore, 1985 is a pivotal year. It could mark the time when creditors and debtors put their relationship on a longer-term footing, aimed at promoting the economic growth that is the surest road to financial stability. Unless this can be done, many developing countries will continue to experience strong restraints, as a decade of lost opportunities and failed expectations".^{78/}

This apparent new concern for developmental considerations with respect to debtors coincided with differences of views in the creditor "bloc", most

specifically, those between the continental European countries (and their banks) and the United States government (and United States banks), those between the multilateral institutions (particularly the IMF) and the TNBs and those between larger and smaller banks. The European governments, with the exception of the United Kingdom, increasingly recognized the fact that their less exposed and better provisioned banks were committing relatively more new resources to the TNB debt restructuring agreements than were the more exposed and less well-provisioned major United States banks. The United States government and its allies in this matter —the governments of the then relatively more exposed and less well-provisioned English, Japanese and Canadian banks— initially maintained that the phase one strategy was still essentially correct.^{79/} Divergences of opinion between the multilateral institutions and TNBs had to do with the effectiveness of the strictly market solution in the sense that the multilateral institutions began to comprehend that a return to voluntary TNB lending for developing country debtors was at a minimum, years away,^{80/} whereas the banks themselves, at least the big United States money centre institutions, stubbornly held to their opinion regarding the essential correctness of the phase one strategy.^{81/} Furthermore, demonstrating an increasing appreciation of the technical (rather than simply ideological) criticism of their harsh stabilization and adjustment programmes for developing country debtors ^{82/} and the limits of forced adjustment, the IMF moved to prepare a new diagnosis in which structural factors played a more important part and complemented a new strategy to deal with the debt crisis. Most banks preferred to continue treating the crisis as a liquidity problem while attempting to minimize any further financial commitments. The smaller, less-exposed banks began to sell off some of their international assets (at a discount). The decline in the TNB financing available to debtors and the differences of views within the creditor bloc produced a new change which has come to be popularly known as the Baker Plan or Baker Initiative.

This new strategy consisted of three essential elements. The first, and perhaps the most important, was the recognition that recessionary adjustment by the more indebted developing countries was self-defeating; rather, a lasting solution necessarily involved a rising debt service capacity not simply the containment of the current account deficit of these debtors. In this sense, growth was seen as the necessary companion to adjustment. The second component was the realization that all the major participants in the debt crisis (especially the debtor countries and the transnational banks) possessed a degree of responsibility in producing the crisis and this co-responsibility was to become a cornerstone of the new strategy in the sense that burdens were to be shared.^{83/} The third element of the strategy assigned specific roles to each of the major participants. With regard to the 15 principal debtors explicitly covered by the Baker Initiative, they were to continue their adjustment extending it now to structural and institutional measures such as tax reform, market-oriented pricing, the reduction of labour market rigidities, and the opening of their economies to foreign trade and investment.^{84/} The case-by-case approach was maintained. The transnational banks were to lend an additional US\$20 billion over the 1986-1988 period which represented an increase in their overall exposure in those countries of something in the order of 3% a year. This was viewed as the principal financial means to sustain the debtors' policy efforts.^{85/} The OECD countries were enjoined to create a trade and financial

environment supportive of the growth objectives of the debtor developing countries. The multilateral institutions, particularly the World Bank and other regional development banks, were urged to increase by 50% their lending to these debtors in order to support structural policy changes and compensate for the IMF finance which turned negative in net terms for major debtors in 1985. Lending in the order of US\$9 billion over the 1986-1988 period was hoped for from multilateral sources. Improved and closer co-ordination between the IMF and the World Bank was called for, although the Fund retained its overall supervisory role in the management of the debt crisis and, in particular, it continued to be the official interface between these principal developing country debtors and the transnational banks via the "enhanced surveillance" mechanism.^{86/} The organizational instrument selected to implement this new strategy was the multiyear rescheduling agreement (MYRA) which became characteristic of phase two negotiations.^{87/} All major participants, in particular the transnational banks,^{88/} seemed to indicate their willingness to accept the role assigned to them by the Baker Initiative.

Again, using the example of the Latin American countries, those debtors continued the massive transfer of resources outside the region during 1985-1986, due to the high level of interest payments made and the lack of any new access to international capital markets (furthermore, new money became scarcer still). It should be emphasized that this took place despite the fact that the value of their export earnings from goods fell by more than 20% over that interim. Generally, nonetheless, the 1985-1986 period brought about some improvements from the period of recession as is suggested by the data contained in table 23. Although the current account deficit measured as a proportion of the gross domestic product tended to widen again after being eliminated during 1984, virtually all of the other indicators improved at the regional level. Growth, albeit minimal, was attained although this regional average was unevenly distributed across individual countries. The rate of growth of private consumption, gross investment and the value of imports turned positive, urban unemployment fell significantly and the regional rate of inflation in 1986 was one third that of 1984. As has been noted, the restructuring agreements of phase two, mainly multiyear rescheduling agreements (see table 14), also provided substantial relief from the balance-of-payments perspective as several years of payments (4.5 on average) were reprogrammed over 12 or more years at reduced spreads and without commissions. These reprogrammed payments (excepting for Brazil and Panama) generally represented over three quarters of the value of existing bank debt for each of these countries. Even taking into consideration the differences in economic performance at the country level, it did appear that the forced adjustment phase, for all the misery it had caused, had established the basic conditions for a return to firm economic health in the region (even though the indicators had not yet recovered their 1980 levels in most countries, especially with regard to GDP per capita, investment and import values).

Table 23

LATIN AMERICA: ADJUSTMENT INDICATORS FOR MAJOR COUNTRIES, PHASE TWO: 1985-1986

Country	Current account deficit as % of GDP (1986)	GDP per capita	Private consumption	Domestic investment	Value of imports	% increase urban unemployment a/	% increase consumer prices (1986)
(1986 values based on index 1980 = 100)							
Argentina	3.5	85.5	91.5	46.2	47.7	21	81.7
Bolivia	12.5	74.2	97.1	48.1	101.1	29	66.0
Brazil	1.5	103.1	118.9	88.1	70.4	-49	58.6
Colombia	-1.1	105.6	118.5	104.3	92.5	2	20.9
Chile	4.8	94.1	94.6	65.2	69.3	-29	17.4
Ecuador */	5.5	99.1	118.5	70.9	87.0	13	27.4
Mexico	0.8	91.7	102.6	60.0	65.1	-20	105.7
Peru	5.4	92.3	123.1	83.0	97.4	-22	62.9
Uruguay	-1.2	87.8	77.1	38.8	61.1	-24	70.6
Venezuela */	4.5	83.3	106.5	64.2	74.5	-2	12.9
Latin America	2.1	94.8	108.6	72.2	72.9	-17	64.9

Source: ECLAC/CTC Joint Unit on basis of information supplied by ECLAC, Division of Statistics and Quantitative Analysis.

*/ OPEC member.

a/ Per cent increase in urban unemployment rate between end-1984 and end-1986.

With regard to negotiations at the level of individual countries, phase two witnessed greater acquiescence on the part of Argentina and new difficulties from other countries, such as Peru and Brazil. The latter, which had experienced problems in complying with the targets of its extended fund facility during phase one saw its hopes for a multiyear rescheduling agreement disappear in February of 1985 when the IMF terminated its facility. A new democratic government and a strong trade surplus stiffened the negotiating posture of national decision-makers, who continued to negotiate on an annual basis their rescheduling agreements. Peru had seen its standby agreement with the IMF suspended in August of 1984. The new government opted to restrict debt service to about 10% of export earnings which resulted in its debt held by United States banks being declared "value impaired" by United States regulators as arrears accumulated, reaching US\$2.2 billion overall at the end of 1986. Excepting these few (but important) cases of incomformity with the phase two restructuring process, most major debtors from the region were more interested in obtaining the multiyear restructuring on much improved terms that they were being offered to keep them adjusting and servicing the external debt.

The strategy for phase two created expectations that the debt crisis was now somehow under control and that the new financing to be made available by banks and multilateral institutions was going to allow national decision-makers to shift the emphasis of economic policy from adjustment to growth, something which would stimulate the much awaited return to voluntary lending by international capital markets. None of these expectations was fulfilled. The essence of the phase two strategy in practice continued to be "muddling through".^{89/} The chief failure of the strategy was that the transnational banks never came up with anything remotely close to US\$20 billion in new money which was requested of them for the 15 principal debtors. The World Bank commented that:^{90/}

"Contrary to expectations, bank lending to developing countries has declined as the financial position of many banks has strengthened. Improving capital-exposure ratios, together with increased provisions for loan losses, have left the smaller banks, in particular, better placed to resist calls for more voluntary lending. But even the money centre banks were more reluctant to meet new financing needs in 1985; lending slowed to those countries that had avoided debt rescheduling, as well as to those with disruptive debt-servicing problems. Among the former, many appear to have chosen to reduce borrowing --at the cost of slower growth-- to avoid risking their access to finance, but some others found creditors increasingly reluctant to lend. Banks no longer seemed persuaded in 1985 that developing countries can regain the economic momentum that made them attractive lending targets in earlier years; a renewal of that momentum is now essential before private lenders will again view countries with debt problems as creditworthy. As the prospects for many debtor countries worsened, banks, in effect, passed along the message that they had done all they would."

A year later it reiterated that:^{91/}

"The events of 1986 suggest that major creditors banks, on occasion, can still be persuaded to make new loans when faced with the imminent threat of collapse in their financial relationship with a major debtor (though even in

Mexico's case it has proved difficult to bring smaller banks into the agreement). They offer no encouragement that a renewal of voluntary lending is close, and highlight the very real difficulty of harnessing private lending in support of longer-run adjustment programs. That difficulty is increasing rather than easing. Bankers' attitudes have hardened with the passage of time, and the perceived incentives for further lending have weakened. At one level, commercial banks' risk exposure to developing countries has fallen dramatically. For the top twenty-four US banks, it fell from 147 percent of capital to 118 percent in 1986, down from a high of 210 percent in 1981. For banks outside the United States, exposure figures are less readily available, but are known, in most cases, to be lower. The underlying strengthening of capital ratios is a welcome development for the international banking system, increasing its defenses against future shocks, but its significance for lending flows to the debtor countries in the short term appears less favorable."

Perhaps, the most glaring shortcoming of this United States debt initiative was that the United States government did not dedicate any of its own resources to the resolution of the debt crisis ^{92/} and United States regulators did not convince United States banks to do so either. During this phase, United States regulators acted more firmly with the most exposed United States banks demanding of them mandatory provisioning requirements more consonant with risks on their international exposure in developing countries; however, the immediate effect was to severely reduce new money and other facilities for debtors although it did put the United States banks in a stronger position to absorb potential losses. In this manner, the United States regulatory system continued to have a strong impact on the implementation of this phase of the debt restructuring process.^{93/} Moreover, while it made some exceptions for its neighbour, Mexico, the United States government was unwilling, other than on case-by-case (and not global) considerations, to commit its own resources to the solution that it itself had prescribed.

The Governments of Canada, Japan and United Kingdom were increasingly uncomfortable with the United States strategy. The United Kingdom banks even refused to sign the new money facility agreed in principle for Mexico in late 1986 because they felt their commitment would be used to pay interest to smaller United States banks pulling out of Mexico. Only the increased contribution of the Japanese and the big United States money centre banks saved the agreement.^{94/} The IMF and the World Bank became more critical of the fact that, in general, the banks accepted but did not fulfill the role assigned them by the Baker Initiative. That failure by the TNBs considerably complicated the task of those multilateral institutions and threatened the outcome of the second phase of the adjustment and debt restructuring process.

The increasing tendency of non-United States banks to convert and consolidate their exposure to problem debtors and for smaller United States banks to bail out of the debt restructuring process altogether created severe difficulties for new money facilities because the European and Japanese banks did not want their contribution based on their 1982 exposure but on something more recent and the smaller United States banks simply wanted to exit even at the cost of a severe discount in the sale of their loan portfolios. The United States regional banks often found they had situations in common with

non-United States banks.^{95/} At the same time, United States regulators began to pay greater attention to prudential elements of their discretionary decision-making with regard to the concentration of risk, the capital adequacy and the provisioning of the more exposed United States banks. It appears that the larger United States banks had used the additional time given to them (mainly by counting their international loans to developing country at face value) to strengthen their balance sheets in order to generate larger profits used more for dividend payout and share price speculation than primarily to improve capital ratios and make appropriate provisions. This caused bank supervisors to reconsider their policies and the treatment given to these leaders by federal banking supervisors tended to become tougher.^{96/} These differences of views --between TNBs and other creditors and among the TNBs themselves-- were to grow considerably during the third phase of the debt restructuring process which began in 1987.

C. A transnational bank adjustment phase?

The 1987-1988 period witnessed further changes of the debt restructuring process. The conditions seem to be shifting appreciably, apparently in favour of debtors and to a certain extent at the expense of the TNBs, especially the big United States money centre institutions; however, the outcome is anything but clear and contradictions abound. The second phase of the debt restructuring process --the adjustment with growth one-- did not achieve many of the objectives expected of it; however, it did begin with a note of optimism in the sense that the deal given to Mexico (agreed in principle in October of 1986 and signed in April 1987) was better than all previous ones (see table 14) and was thought to represent a shift toward true renegotiations rather than simply the continuous reshuffling of upcoming and overdue capital payments. There was some hope that the many smaller debtors which had not been able to maintain debt service (in Latin America, this included Bolivia, Costa Rica, Cuba, Honduras, Nicaragua and Peru) ^{97/} would finally be brought back into the process via some form of debt relief, now that the United States TNBs were apparently in a stronger financial position with respect to their exposure to developing country debtors.

An indication of the exposure of the major United States TNBs at the close of the second phase of the debt restructuring process is contained in table 24. It is clear that although the exposure of the seven major United States banks (by assets) in the principal Latin American debtor countries represented about two-thirds of the value of the exposure of all United States banks in those countries, their high exposure did not result in a very much greater level of non-accrual loans than that for United States banks as a group. Although the overall average for the leaders was slightly higher than that for the seven majors or the total for all United States banks, the figures for the case of Argentina and, particularly, that of Brazil, seemed to give reason for confidence. In other words, in spite of the magnitude of the exposure of the major United States banks in the principal Latin American debtor countries, the overall average per cent of loans on a non-accrual basis (3.1% for the seven majors) was not widely out of line with their overall average for other assets (2%).^{98/} With regard to the stronger

Table 24

TOP SEVEN US BANKS BY ASSETS: THEIR EXPOSURE IN THE PRINCIPAL LATIN AMERICAN DEBTOR COUNTRIES
AND PER CENT OF EXPOSURE ON NON-ACCRUAL BASIS,^{g/} AS OF 31 DECEMBER 1986

(Millions of US dollars)

Bank	Brazil			Mexico			Argentina			Venezuela			Total		
	Amount	non-accrual	%	Amount	non-accrual	%	Amount	non-accrual	%	Amount	non-accrual	%	Amount	non-accrual	%
Citicorp	4 600	1.5		2 800	4.1		1 400	2.0		1 000	1.7		9 800	3.8	
BankAmerica Corp.	2 741	.		2 500	8.5		600 */	ne		1 260	17.7		7 101	6.1	
Chase Manhattan	2 740	0.2 */		1 640	6.4		960	5.7		1 080	2.3		6 420	3.0	
Manufacturers Hanover	2 317	0.5		1 903	0.9		1 460	0.8		1 005	1.5		6 685	0.8	
J.P. Morgan & Co.	1 926	1.0		1 137	0.5		876	1.8		350 */	10.0 */		4 289	1.8	
Chemical Bank	1 446	0.2		1 426	0.4		656	4.4		680	2.4		4 208	1.2	
Bankers Trust	849	4.6		1 279	1.3		200 */	7.5 */		400 */	6.3 */		2 728	3.5	
Total seven majors	16 619	0.8		12 685	3.9		6 152	2.5		5 775	8.7		41 231	3.1	
Total all US banks	23 624	0.7		23 545	3.4		9 046	2.4		8 733	7.5		64 948	2.9	

Source: ECLAC/CIC Joint Unit on basis of information contained in Salomon Brothers Inc, "Review of Bank Performance, 1986", New York, 1987 and US Federal Financial Institutions Examination Council, Statistical Release: Country Exposure Lending Survey, December 1986, Washington, D.C., 24 April 1987, table 1, p. 2.

^{g/} Loans for which interest is credited by the bank on a cash basis (rather than an accrual basis).

*/ Estimate by Salomon Brothers Inc.

financial situation of these banks, reported net income for these seven major United States banks during phase two (1985-1986) was up on average by 13% over that for phase one (1983-1984), which itself had improved by 27% over the average for 1980-1982.⁹⁹ This, however, did not cause many of those banks to modify the short-term profit orientation which had guided their behaviour up to that point in time nor to re-evaluate the accounting fiction which enabled them to carry their developing country loans at face value on their books even though "most market participants had conceded that much of the LDC debt will not be repaid".¹⁰⁰ Furthermore, their reluctance to extend their exposures via restructuring packages created other problems. The Vice-Chairman of the Board of Governors of the United States Federal Reserve System went on record stating that "doubts about the availability of necessary finance from commercial banks may be undermining the resolve of many indebted countries to implement needed economic reforms".¹⁰¹ These TNBs eventually felt themselves isolated, as was manifest in a letter to key finance ministers on the IMF Interim Committee and IMF-World Bank Development Committee by the managing director of the TNBs' Institute of International Finance in which he stated that the creditors' bloc was less together than in 1983-1986.¹⁰² Thus, although the major United States banks felt more secure financially, their political support seemed to have been diminishing. For example, in January of 1987 the United States government took the initiative in getting Paris Club of sovereign creditors to agree to Brazil's request to reschedule official debt worth about US\$4 billion without first signing an IMF-supported adjustment programme.¹⁰³ According to one commentator, "in agreeing to reschedule without an IMF programme, the Paris Club creditors were, in effect, agreeing to fly blind, taking the London Club creditors in their wake".¹⁰⁴

On 20 February 1987, Brazil declared a moratorium on its sovereign debt and the debt restructuring process was changed; probably inalterably. Ecuador followed suit in March. The action by Brazilian authorities, primarily in response to perceived TNB intransigence in not countenancing a Mexico-like deal for Brazil, produced a series of reactions due to the fact that it activated the United States regulatory system procedures. It had become almost traditional that the big debtors and the bank steering committees play a kind of brinkmanship in relation to the 180 day deadline for credits with overdue interest, which determined the value impaired status of those international assets and required allocated transfer reserve risks (ATRRs) to be established thereafter. Of all the major developing country debtors, only Peru and Bolivia had fallen into the value-impaired category. The rest had managed to come to some kind of an agreement before the more drastic ATRRs came into effect. The magnitude of the Brazilian sovereign debt and its potential impact over the United States TNB accounts caused certain of the principal actors involved to spring to action.

Citicorp's action was to increase in April of 1987 by US\$3 billion its provision for bad loans to developing countries, which was equivalent to 25% of its exposure (causing itself a US\$2.5 billion loss for the second quarter). Ostensibly, Citicorp was trying to show investors that the most exposed United States bank in Brazil was taking the problem seriously and that the principal co-ordinating agent of the bank advisory committee for Brazil was showing that country that it was prepared to face default. In neither of these two areas was the Citicorp strategy more than partially

successful; however, it did have important consequences for other participants.

With regard to "the market", its reaction to Citicorp's move was found in the fact that the value of Citicorp shares rebounded by 10% shortly after the announcement of new provisions was made and the leading United States credit-rating agencies maintained Citicorp's creditworthiness standings;^{105/} however, the secondary market prices for third world debt began to plummet from the plateau maintained throughout most of the second phase of the debt restructuring process (table 25) and represented, on average, a discount of about 50%, that is, equivalent to double the Citicorp provisions.^{106/} In respect of the negotiation position of the Brazilian authorities, it remained firm and the 180 day deadline was breached on 20 August. In spite of the fact that the primary objectives were not achieved, Citicorp's action did produce short-term advantages. Of the United States leaders, Citicorp was the most financially-prepared to make provisions and suffer huge quarterly losses because, although it was the most exposed in Latin America its exposure as a per cent of equity was by far the lowest among the leaders (only J.P. Morgan & Co., was in the same neighbourhood), therefore, their 25% loan loss reserve represented less of a financial burden than that for other banks, such as Manufacturers Hanover, Chase Manhattan, or Bank of America.^{107/} (See table 26 for net income and loan loss reserves changes during 1987.) Although Citicorp achieved a short-term competitive advantage vis-à-vis the other leaders, its action demonstrated a lack of unity among United States TNBs and many of the bigger United States regional banks reacted by raising their reserves for possible losses on loans to developing country borrowers to the equivalent of 50% of exposure, something which even Citicorp could not match in 1987.^{108/}

In early September the United States Secretary of the Treasury rejected the Brazilian proposal to swap half of their medium and long-term loans for long-term fixed-interest bonds.^{109/} In its international agreement on capital adequacy the United States authorities insisted that some reserves against loans to developing countries be counted as "capital". The United States government and federal banking supervisors had given clear indications that financial system safety and international competitiveness have given way to prudence as the principal objective of the United States bank regulatory system as of 1987. In fact, the same international agreement on capital adequacy stipulates that United States banks will need to have capital (equity and long-term debt) equal to 8% of "risk-adjusted" assets (which include off-balance-sheet items) by the end of 1992, something which will be more difficult for the big United States banks than others since they are the most at risk with regard to sovereign debt defaults.^{110/} Euromoney suggested that the principal effect would be in forcing the major United States banks to slash assets and divest,^{111/} especially since only a maximum of 1.5% of the 4% Tier Two capital could be accounted for by loan loss provisions ^{112/} (it might be remembered the United States banks face unique bank regulations which allow them to count loan loss reserves as primary capital).^{113/} In sum, Citicorp's action did not achieve its primary objectives with regard to the market or Brazilian negotiators although it did bring certain short-term benefits to the company during 1987. It appears, however, that those short-term gains were won at the cost of the unity of purpose of United States

Table 25

SECONDARY MARKET PRICES FOR SOME DEVELOPING COUNTRY DEBT

(% of face value)

Country	July 1985	July 1986	July 1987	May 1988
Argentina	60-65	63-67	46-49	28-29
Brazil	75-81	73-76	58-61	55-56
Chile	65-69	64-67	68-70 _{a/}	61-62
Colombia	81-83	80-82	81-83	nd
Ecuador	65-70	63-66	45-47	nd
Mexico	80-82	56-59	55-57	54-55 _{a/}
Peru	45-50	18-23	10-12	04-09
Philippines	nd	nd	69-71 _{a/}	50-51
Venezuela	81-83	75-78	70-72	55-56

Source: Shearson Lehman Brothers and Bear, Stearns & Co.

a/ Rounded.

nd No data available.

Table 26

PRINCIPAL US BANKS: ELEMENTS OF THEIR PERFORMANCE DURING 1987 a/

(Millions of US dollars)

Bank	Net income a/		Non-performing loans a/			Loan loss reserves a/			Non accrual loans in developing countries b/		
	1987	1986	1987	1986	Change	1987	1986	Change	Total exposure	Total non-accrual	% non-accrual
Citicorp	(1 138)	1 058	6 029	2 554	136	4 600	1 700	171	14.0	3.7	26
BankAmerica Corp.	(955)	(518)	4 193	4 316	-3	3 263	2 172	50	nd	nd	nd
Chase Manhattan	(895)	(585)	4 366	1 900	130	2 720	1 065	155	8.7	2.5	29
Manufacturers Hanover	(1 140)	411	1 760	2 140	-18	2 700	1 000	170	9.2	1.5	16
J. P. Morgan & Co.	83	873	1 680	633	165	1 708	910	88	5.4	1.3	24
Chemical N.Y.	(854)	402	2 960	1 350	119	2 068	669	209	5.9	1.1	19
Bankers Trust	1	428	1 156	879	32	1 298	591	120	4.0	0.6	15
Total: 7 majors	(4 898)	3 239	22 144	13 772	60	18 357	8 107	126	47.2 c/	10.7 c/	23 c/

Source: ECLAC/CIC Joint Unit, based on information from The Banker, March 1988 and Wertheim Schroder, as quoted in The Economist, 1 January 1988.

nd No data available.

a/ Refers to overall situation of banks, not only their international operations.

b/ At 30 September 1987.

c/ Excludes BankAmerica Corp.

leader banks (con top of the major TNBs as a whole) in the debt restructuring process and the unquestioned defence of those banks by United States regulators.

It must be pointed out that, with regard to the TNBs as a group, the English and Japanese banks had been particularly displeased by their experiences with the new money facility for Mexico. During the Argentine and Brazil negotiations, non-United States banks increasingly challenged the practice of calculating new money on the basis of exposures in 1982. This, of course, penalized banks which had successfully sold or swapped portions of their portfolios.^{114/} Non-United States banks began to openly propose other strategies. Deutsch Bank put forward a debt-security swap initiative.^{115/} The Bank of Nova Scotia opined that straight interest rate cuts were needed.^{116/} The Industrial Bank of Japan put forward a case-by-case interest capitalization proposal.^{117/} DG Bank suggested that partial repayment in local currency might be the answer.^{118/} The new "menu approach" ^{119/} to the debt crisis was simply the recognition that no single strategy (especially the United States one) was acceptable to the TNBs as a group. The Government of Japan felt the need to provide a new global proposal in the form of the Miyazawa plan put forward at the Toronto summit in the summer of 1988.^{120/}

Among the developments in 1987 were the tension between the United States regulator and the money centre banks and the difference of views among leader banks. An indication of the former is the fact that the General Accounting Office reacted to the US\$21 billion of new loan loss reserves in early 1987 by suggesting that they should have been at least US\$49 billion.^{121/}

An indication of the latter, and the new perspective emerging in the debt restructuring process was the Morgan/Mexico scheme for converting Mexican debt into "securitized" bonds. J.P. Morgan helped Mexico develop and market the instrument and lent its prestige as the most prudent of the United States money centre banks to the operation. The innovative scheme took advantage of the strong reserve holdings of Mexico and consisted of the attempt to exchange up to US\$20 billion of foreign debt for bonds, the principal of which was secured by United States government bonds. This was the first clear endeavour by a leader bank to assist a major debtor capture a significant portion of the discount on its external debt in the secondary market. The Mexican authorities had hoped to capture a 50% discount (that is, cancel US\$20 billion in external debt via the purchase and exchange of US\$10 billion in United States government bonds); however, they achieved an average discount of only about 30% on just US\$3.7 billion of their debt. Two important factors which explain the relatively poor results of this new initiative are bank rivalries and the impact of the United States regulatory system. In terms of the first, it seems that Citicorp, for example, did not even bid; thereby demonstrating its pique at being upstaged by Morgan with so important a client as Mexico.^{122/} With regard to the second, it appears that many United States banks thought that existing United States regulations required that if they accepted discounts superior to their reserves (on average, about 30%) they would be obliged to top up their reserves to the discount level. The fact that the interest on the bonds was not covered by the United States government bonds, but depended on the goodwill of the

Mexican authorities, implied that the new debt also had to be booked at Mexico risk levels, that is, with new provisioning. These uncertainties as well as some associated with the status of debt offered for sale but not purchased by the Mexican authorities,^{123/} kept the participation of United States banks at relatively low levels. It was mainly Japanese (and other non-United States) banks which made debt sales via this operation. In spite of its limited results and uncertain status in the context of the United States regulatory system, the new scheme was praised as at last bringing sanity to the debt restructuring process even though it entailed clear losses for the banks selling off their Mexican exposures.^{124/}

Naturally, the best solution to the international debt crisis is a global one agreed upon in multilateral forums by creditor and debtor governments.^{125/} That kind of solution does not appear to be forthcoming in the short term. Unfortunately, the strategy in the form of a "menu approach" strategy does not provide the easing of the international debt crisis as time goes on, rather it is creating one serious and ever-increasing problem. The exposure of United States banks in troubled debtor countries is becoming more and more concentrated in the United States money centre banks.^{126/} Furthermore, as non-United States banks are more active in selling off or converting their exposure, more of the overall TNB exposure is being concentrated in the hands of the United States money centre institutions. Thus, again, those banks which were the least prudent during the credit boom and least flexible during the debt restructuring process are being brought back to the forefront of the international debt crisis and, ironically, the debt crisis is becoming an essentially United States one, from the point of view of the creditor banks involved.

Clearly, action by United States regulators and the United States government is called for. The Federal Reserve has reacted to a certain extent. They have taken into consideration complaints by United States banks that they are at a competitive disadvantage with European and Japanese banks in converting their debt into equity because of the major restrictions they face on non-financial investments. They have also responded to debtor complaints that limiting United States bank participation to companies being privatized was an undue incursion into local decision-making matters. The February 1988 revision of Regulation K eliminated the "privatization" requirement and allowed for increased levels of shareholding (up to 40%) and lengthened permissible holding periods (to 15 years).^{127/} Furthermore, the new view of the American Institute of Certified Public Accountants (AICPA) with regard to the valuation of loans to a country a part of which is sold at a discount, something which especially influenced the participation of United States banks in the Morgan/Mexico securitized bond deal, should permit more debt conversion by United States banks.^{128/} These improvements can help to facilitate more debt conversions but, is it happening?

Previous to a recent flurry of activity in 1988,^{129/} the big United States banks had operated in the secondary market mainly as intermediaries for other banks and corporations. While this has helped them, again, to earn good fees, for the most part these money centre institutions have not dealt in their own exposures. The loan loss provisions built up in 1987 do not seem to have resulted in a surge in debt conversions ^{130/} by those banks, using their own exposures. Everyone seems to agree that "one way or another,

the big banks are going to be pushed into reducing the stated value of their third world exposures";^{131/} however, on their own accord the big money centre institutions do not seem to be doing what is expected of them. Until they do, the TNB adjustment phase and the material basis for the resolution of the international debt crisis will not be concretized. As Business Week put it: "The banks, whose lending practices contributed to the crisis, must not be allowed to wiggle off the hook." ^{132/}

The United States government and regulators can positively contribute to the process by making it clear to the United States money centre institutions that the time to convert their exposure to troubled debtors is now. Given the international commitment involved in the new agreement on capital adequacy standards, it is evident that these big banks must greatly reduce their exposures by 1992. The other means of improving their capital ratios --by raising new equity and retaining earnings-- are very difficult during periods of huge provisioning for loan losses and low stock prices and creditworthiness ratings.^{133/} Furthermore, loan loss reserves, as of 1992, can only account for a maximum of 1.5% of primary capital (the major United States banks now have them in the order of 4%). Authorities can speed up the process of debt conversion by the big money centre banks by clearing away the hurdles of their regulatory system and by offering tax incentives (for all troubled debtors, not just value-impaired ones), as do many other major creditor countries. If action is not taken, the international debt crisis will become primarily a United States problem due to the increasing concentration of debt in the accounts of the big United States banks.

This chapter has emphasized the importance of the impact of the United States regulatory system on the outcome of the debt restructuring process. The new legal status given to the waiver of sovereign immunity and the administrative procedures (and discretionary powers of regulators) associated with risk concentration, capital adequacy and provisions established concrete parameters to the debt restructuring process. During the first phase of that process, 1983-1984, the concern of regulators for the safety of the United States financial system precluded all others (especially, the granting of relief to debtors) with the result that the United States banks were allowed time to strengthen their capital while debtors were left to adjust in the worst of conditions. The United States regulatory system had not left any margin for negotiation between debtors and bank steering committees. The problems emerging from phase one of the debt restructuring process were corrected somewhat by phase two of that process, 1985-1986, with the recognition that growth had to accompany adjustment on the part of debtors. That relied, to a large extent, on the provision of adequate financing by TNBs, which was the role assigned them by the Baker Initiative. Unfortunately, the United States TNBs did not fulfill the role expected of them either in providing adequate financing to major debtors as United States policy-makers had requested or by establishing a sufficient level of reserves as prudential bank supervisions would have required. Viewed from the perspective of the debtors' situation, the United States regulatory system represented a continual limitation on the search for innovative solutions to the debt crisis. National considerations clearly continued to take precedence over international ones.

One result of this policy was to cause differences of views in the creditor bloc. Transnational banks, especially the United States leaders, drew the ire of multilateral institutions, such as the IMF and IBRD, as well as national ones, such as the United States Treasury, for not fulfilling their expectations with regard to new loans. Within the category of TNBs, many non-United States banks as well as smaller and regional United States ones began increasingly to sell off (at a loss) their major debtor country exposures in order to exit definitively from the debt restructuring process controlled by the United States leaders and acquiesced in (with increasing difficulty) by the United States regulatory system. Finally, within the leader category itself, the lack of unity of purpose was demonstrated by Citicorp's action in the face of the Brazilian moratorium. Morgan took an initiative with regard to a major client (Mexico). United States Treasury officials and the Federal Reserve Board appeared to favour a more enlightened approach by facilitating debt sales. Whether these developments succeed in laying a new basis for a TNB adjustment phase in the debt restructuring process depends to an important degree on to what extent the new United States concern for prudential bank supervision leads to the removal of the limitations to innovative solutions to the debt crisis and obliges the big United States banks to do something with their loan loss reserves and major debtor exposures, as other nationalities of banks have been obliged to do.

Notes

1/ United Nations, Department of Economic and Social Affairs, Economic Commission for Latin America, External Financing in Latin America, E/CN.12/649/Rev.1, New York, 1965. Also consult United Nations, International Capital Movements during the Inter-War Period, Department of Economic Affairs, Lake Success, N.Y., 1949 and Fishlow, A., "Lessons Past: Capital Markets During the 19th Century and InterWar Period", International Organization (39,3), Summer, 1985.

2/ United Nations Centre on Transnational Corporations, Issues in Negotiating International Loan Agreements with Transnational Banks, ST/CTC/48, New York, 1983.

3/ The World Bank, World Development Report, 1981, Washington, D.C., August 1981, p. 49.

4/ de Vries, R., "Global Capital Markets: Issues and Implications", The Marcus Wallenberg Papers on International Finance (1,4), International Law Institute and School of Foreign Service, Georgetown University, Washington, D.C., 1986, p. 14.

5/ Folkerts-Landau, D., "The Changing Role of International Bank Lending in Development Finance", International Monetary Fund Departmental Memoranda Series, Washington, D.C., 19 December 1984, pp. 11-12.

6/ The World Bank, World Development Report, 1985, Washington D.C., July 1985, pp. 54 and 56.

7/ Previous to the debt crisis there existed little statistical information on the essential character or the detailed nature of this phenomenon. Fortunately, the situation has changed and a great deal of relevant statistics have been produced; however, one must be very careful in compiling, comparing and interpreting the several series of data presently available. Consult "Foreign Lending by Banks: a Guide to International and U.S. Statistics", Federal Reserve Bulletin (72,10), October 1986, "Measuring Developing Countries External Debt", Finance and Development, March 1987 and OECD, External Debt: Definition, Statistical Coverage and Methodology, Paris, 1988.

8/ Generally in this report constant values are produced by utilizing the consumer price index (1980=100) for industrial countries according to the International Monetary Fund (International Financial Statistics) unless otherwise stipulated. Table 1, exceptionally, was prepared on the basis of existing OECD information which was calculated using 1983/85 as the base years for constant values.

9/ Figures taken from World Bank, Developing Country Debt (abridged version of the 1986-1987 World Debt Tables), Washington, D.C., February 1987, p. 5.

10/ See "External Indebtedness of Developing Countries", IMF Occasional Paper, No. 3, Washington, D.C., May 1981, and P. Mentré, "The Fund, Commercial Banks and Member Countries", IMF Occasional Paper, No. 26, Washington, D.C., April 1984, pp. 17-18.

11/ Azizkali, F. Mohammed, "The case-by-case approach to debt problems", Finance and Development, March 1985, p. 27. Also refer to "A Nightmare of Debt: A Survey of International Banking", The Economist, 20 March 1982, pp. 10-22.

12/ For a good summary of the major changes which have taken place with regard to the principal TNBs, consult both the United Nations Centre on Transnational Corporations (UNCTC), Transnational Banks: Operations, Strategies and their Effects in Developing Countries, Sales No.:E.81.II.A.7, New York, 1981 and, Devlin, R., Debt and Crisis in Latin America: The Supply Side of the Story, Princeton University, Princeton, forthcoming 1989.

13/ P. Wellons emphasizes the importance of home country policies in his "International Debt: the Behavior of Banks in a Politicized Environment", International Organization (39,3), Summer, 1985.

14/ Op. cit., p. 67.

15/ International earnings as a proportion of total earnings of the 10 largest United States banks grew in the following fashion:

Bank	1971	1973	1975
BankAmerica Corp.	19.0	24.0	48.0
Citicorp	43.0	59.6	70.7
Chase Manhattan Corp.	29.0	39.5	64.3
Manufacturers Hanover Corp.	24.0	35.0	46.0
J.P. Morgan & Co.	28.9	46.3	60.0
Chemical New York Corp.	17.0	18.4	45.0
Bankers Trust & New York Corp.	19.2	40.1	60.0
Continental Illinois Corp.	3.0	20.1	13.4
First Chicago Corp.	7.0	12.0	34.0
Security Pacific Corp.	2.0	12.0	12.7

16/ For the period as a whole, 1974-1985, the assets of British and United States banks demonstrated the weakest real growth, measured in local currencies. The assets of Japanese, French and German banks grew in the range of 7% to 10%, in real terms; however the impact of exchange rate adjustments affected them differently. It was positive in the case of French banks, more or less neutral in the case of the German banks and slightly negative for Japanese banks. These effects differed, naturally, when dealing with the three subperiods dealt within this study.

17/ UNCTC, op. cit., table 15, p. 66, note c/.

18/ This information on syndicated credits includes all countries, developing and developed. It might be remembered from table 3 that developing countries accounted for about 44 of these credits during 1974-1982. One is specifically reminded that merger-related activity of United States corporations during 1981 and during the 1983-1985 period was of increasing significance for the overall syndicated loan totals.

19/ The Bank of Tokyo was founded originally as the sole Japanese foreign exchange bank. UNCTC, op.cit., p. 49, note 78.

20/ The organization of these credits was so concentrated that one banker was quoted as follows: "Syndication depends on only about a hundred people in London ...". See Sampson, A., The Money Lenders, Penguin, Harmondsworth, 1983, p. 145.

21/ Group of Thirty, Risks in International Bank Lending, New York, 1982, p. 64.

22/ According to an IMF communication cited by W.R. Cline in his "International Debt and the Stability of the World Economy", Policy Analysis in International Economics, 4, Institute for International Economics, Washington, D.C., September 1983, p. 10.

23/ See Mentré, op.cit., p. 1.

24/ IMF, The Annual Report on Exchange Arrangements and Exchange Restrictions, 1987, Washington, D.C., 1987.

25/ Dillon, K. Burke, et al., "Recent Developments in External Debt Restructuring", IMF Occasional Paper, No. 40, Washington, D.C., October 1985, p. 7.

26/ "Bottomless Debt", The Economist, 11 December 1982, p. 12.

27/ "The Risk Game: A Survey of International Banking", The Economist, 21 March 1987, p.70.

28/ Devlin, R., "The Structure and Performance of International Banking During the 1970s and Its Impact on the Crisis of Latin America", Working Paper No. 90, Kellogg Institute, University of Notre Dame, January 1987.

29/ Consult Cataquet, H., "Country Risk Analysis: Art, Science and Sorcery?", Kredit und Kapital, 1985; Edwards, S., "IDC Foreign Borrowing and Default Risk: an Empirical Investigation, 1976-1980", American Economic Review, 74, September 1984; and Devlin, R., op. cit., pp. 31-46. Another interesting insight is offered by D. Folkerts-Landau who demonstrates the surprising fact that the average interest rate on loans to non-oil developing countries remained consistently below that on large corporate loans in the United States. See his "The Changing Role of International Bank Lending in Development Finance", IMF Staff Papers (32,2), June 1985, p. 334.

30/ Guttentag, J.M., and R.J. Herring, "Disaster Myopia in International Banking", Essays in International Finance, No. 164, Princeton University, September 1986.

31/ Banks apparently thought that they had shifted the risk from interest rate shocks to the borrowers via the floating base interest rate mechanism; however, as the World Bank has demonstrated, the banks simply traded off one risk for another, that is, a greater potential transfer and commercial risk. See World Development Report, 1985, Washington, D.C., 1985, p. 115.

32/ Darity Jr., W., "Did the Commercial Banks Push Loans on the IDCs?", in Caludon, M.P. (ed.), World Debt Crisis: International Lending on Trial, Ballinger Publishing Co., Cambridge, Massachusetts, 1986. Also consult Darity Jr., W. and B. Horn, The Loan Pushers, Ballinger, New York, 1988. The material incentive to push loans has been described as follows: "... the lead bank's ability to negotiate fee income was strongest in the less attractive markets. While the greater fee income could have countered [some of] the greater risk for the lead bank, the participants in the syndicated loan assumed the same risk without the benefit of the fee". See Devlin, op. cit., p. 54. Other literature dealing with the aggressive selling of loans by banks is Crosse, H. and G. Hempel, Management Policies for Commercial Banks, second edition, Prentice Hall Inc., Englewood Cliffs, N.J., 1973, pp. 207 and 280; Dalamaide, D., Debt Shock, Doubleday and Co., Inc., Garden City, N.Y., 1984, p. 43; and Sampson, A. op. cit., pp. 145-146.

33/ A very revealing analysis of the door-to-door sales of syndicated loans to sovereign borrowers, by one of its practitioners, is contained in Gwynne, S.C., "Adventures in the Loan Trade", Harpers, September 1983, p. 24.

34/ According to the OECD, it seems that many of the more aggressive organizers pushed loans onto other bank participants in the syndicates. Some organizers tended to act almost strictly as intermediaries in syndicated lending to sovereign borrowers by placing little or nothing in the syndicates that they organized. The OECD writes, "For example, there is ample evidence that during the boom of the international syndicated loan market many banks participated in lending syndicates on the basis of inadequate independent loan evaluation but relying on the assessment of lead managers. Similarly,

some banks engaged in syndicated business with a view to re-selling participations to other institutions even though there were serious uncertainties about the implications of such business, many of which are still untested from a legal standpoint." See OECD, Prudential Supervision in Banking, Paris, 1987, p. 125.

35/ Refer to the third section of annex 20 entitled "A commentary on Publicly Available Information on the Sectoral Distribution of TNB Exposures in the Case Studies" which also holds for the information presented for Latin America, Mexico and Brazil.

36/ See statement of J. Charles Partee, Board of Governors of the Federal Reserve System, before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance of the Committee on Banking Finance and Urban Affairs, United States House of Representatives, April 21, 1983 found in Federal Reserve Bulletin (69,5), May 1983, p. 343.

37/ Sachs, J. and H. Huizinga, "US Commercial Banks and the Developing-Country Debt Crisis", Brookings Papers on Economic Activity, 2, 1987, p. 567. Also consult "Bank Profitability 1980-1985: Recent Trends and Structural Features", Financial Market Trends, 38, November 1987.

38/ See annex 4 of Instituto de Relaciones Europeo-Latinoamericanas (IRELA), "Europa y la deuda externa de América Latina". Dossier No. 11, June 1987, p. 30.

39/ For an interesting comparison on major features of the different banking regulatory systems, consult ibid., pp. 31-32 and M. L. Williamson, "The Role of Banking Regulation in Third World Debt Strategies", Working Paper, Overseas Development Council, May 1988.

40/ The Central Bank records for the Argentine and Uruguay included nearly all the major credits placed with public sector borrowers as regards the participating banks and the principal terms of the credits. Shortcomings were encountered with respect to information on credits placed with private sector borrowers and guaranteed by the State, the organization of loans (managers and agents), the details on commissions and fees and the jurisdiction and applicable law. Fortunately, the depth of the corresponding consultants' reports and information collected on short-term credits during the worst periods of disarray compensated to a certain extent for missing quantitative information for these particular cases. Naturally the missing information reflects poorly on the nature of the national debt management policy and administrative system.

41/ See note 35.

42/ During 1981-1982 the value of the private sector TNB debt covered by exchange rate or swap guarantees rose to US\$9 600 million which corresponded to about two thirds of the registered private sector debt. By the end of 1983 US\$1 400 million had been converted into the "bonad" promissory notes. See García, A. and S. Junco, "Historia de la renegociación de la deuda externa argentina", Boletín Informativo Techint, No. 245, January-February 1987, pp. 33-36.

43/ The restructuring agreement of 1985 incorporated private debt totalling US\$2 643 million, of which US\$1 610 corresponded to financial sector debt (mostly short term) and US\$1 033 was corporate debt. That was the equivalent of about half of the total private debt for that year indicated in figure 10.

44/ Uruguayan officials accepted a proposal of banks operating in the country to hand over their bad loan portfolio to the Central Bank in exchange for new sovereign loans usually in the order of 2 to 2.5 times the value of

the bad loan portfolio given to the public sector. Over US\$200 million in bad loans was shifted into public sector obligations while US\$416 in new loans to the public sector were registered. Consult Stolovich, L. et al., Compra de Carteras: crisis del sistema bancario uruguayo, Estudio y documentos, Ediciones de la Banda Oriental, Montevideo, 1986, pp. 36-82.

45/ This section relies heavily on John W.T., "Sovereign Immunity", in Kalderan, L. and Q.S. Siddigi (eds.), Sovereign Borrowers: Guidelines on Legal Negotiations with Commercial Lenders, Dag Hammarskjöld Foundation, Butterworths, Uppsala, Sweden, 1984.

46/ A similar institution for English lenders, the Corporation of Foreign Bondholders, was formed in London in 1883 to deal with the international debt crisis of that period. See United Nations, External Financing in Latin America, E/CN.12/649/Rev.1, New York, 1965, p. 27.

47/ The Colombian constitution prohibits the waiver of sovereign immunity; thus, until the jumbo loan of 1985 the TNB loan contracts with Colombia were based on Colombian law and jurisdiction.

48/ John, W.T., op.cit., p. 153.

49/ It is wise to keep in mind the following appreciation of the United States regulatory system, offered by the OECD, in its Prudential Supervision in Banking, Paris, 1987, p. 156:

"The US supervisory system is complex, reflecting the federal organization of government in the United States and the existence of several federal and state agencies charged with the supervision of deposit-taking institutions. As far as commercial banks are concerned, they can be chartered either by federal or state authorities. National banks as well as federally-licensed branches of foreign banks are subject to the supervision of the Office of the Comptroller of the Currency (OCC), an agency within the US Treasury Department. State-chartered banks members of the Federal Reserve System are supervised by both the Federal Reserve Board (FRB) and state agencies. State-chartered non-member banks are supervised by state agencies and, to the extent they have obtained federal insurance, by the Federal Deposit Insurance Corporation. All national banks must be members of the Federal Reserve System. All members of the Federal Reserve System must be insured by the FDIC. The Federal Reserve Bank has authority to supervise all bank holding companies (including foreign bank holding companies) and their subsidiaries; foreign branches of State member banks; and Edge Act and Agreement corporations conducting international business in the United States and overseas. Although the FRB has the authority to supervise the foreign branches and affiliates of national banks, in practice supervision of those entities is exercised by the OCC. The supervision of other deposit-taking institutions is also divided between state authorities and federal agencies: the Federal Deposit Insurance Corporation (FDIC), the Federal Home Loan Bank Board (FHLBB), the Federal Savings and Loan Insurance Corporation (FSLIC), and the National Credit Union Association."

50/ Refer to P. Koenig, "Kiss and Tell: Profit or Loss?", Euromoney, July 1988. There he quotes Nancy Bazelon Goldstone, author of Trading Up: "Of all the false images ever perpetrated on an unsuspecting public by advertising, surely the myth of the commercial bank as a financially conservative institution is the most blatant. US commercial banks are among the largest, and are certainly the most uncontrolled gambling institutions in the world", p. 57.

51/ This description of the ICERC procedure is based on Partee, J. Charles, op.cit., p. 343.

52/ Ibid., p. 343.

53/ Sachs, J. and H. Huizinga, "US Commercial banks and the Developing-Country Debt Crisis", Brookings Papers on Economic Activity, 2, 1987, p. 557.

54/ See IMF, "International Capital Markets: Developments and Prospects, 1984", IMF Occasional Paper 31, Washington, D.C., August 1984, p. 17.

55/ See table 4, ibid., p. 16.

56/ OECD, Prudential Supervision in Banking, op.cit., p. 105.

57/ Ibid., p. 111.

58/ Ibid., p. 256.

59/ The only developing country debtors for which allocated transfer risk reserves were established were Bolivia, Nicaragua, Peru, Sudan and Zaire.

60/ Op. cit., p. 18.

61/ Mentré (op. cit., p. 16) viewed the debt cycle in terms of the following three phases: i) a phase of rapid expansion when credits are available, with a growing proportion of short-term debt as borrowing requirements increase and doubts on the debt service capacity spread; ii) a phase where medium-term credits are no longer available and short-term credits are not renewed —a crisis phase, overcome either through severe adjustment or through a debt rescheduling, or both; and iii) a phase in which creditworthiness is restored, usually some years after the crisis, and the country gradually regains access to the market.

62/ See R. de Vries, "International Debt: A Play in Three Acts", Journal of Development Planning, No. 16, United Nations, New York, 1985.

63/ Consult testimony of Mr. Donald Regan, Secretary of the United States Treasury, found in Hearings on International Debt, Committee on Banking, Housing and Urban Affairs, United States Senate, 4 February 1983. Also see Frydl, E.J. and D.M. Sobol, "A Perspective on the Debt Crisis, 1982-1987", Seventy Third Annual Report, Federal Reserve Bank of New York, May 1988.

64/ ECLAC, External Debt in Latin America: Adjustment Policies and Renegotiation, Lynne Rienner Publishers, Inc., Boulder, Colorado, 1985, chapter 2.

65/ Ibid., chapter 3.

66/ The adjustment of Latin America during 1982-1985 has been found to be greater than that of the war reparations of Germany during 1925-1932 or of France during 1872-1875. See Devlin, R., "Economic Restructuring in Latin America in the Face of Foreign Debt and a Transfer Problem", CEPAL Review, 32, pp. 75-104. Also, consult ECLAC, The Evolution of the External Debt Problem in Latin America and the Caribbean, LC/G.1487, Santiago, 16 February 1988.

67/ Some of the more relevant literature on the Uruguayan case, which was analysed as part of the Interregional Project, is the following: Couriel, Alberto, "El Uruguay empobrecido: deuda externa y modelo neoliberal", draft report for interregional project on TNBs, November 1987; Antia, F. and J.M. Quijano, "Cinco años de crisis de la deuda", Cuadernos del CIAEH (41,1), 1987; Instituto de Economía, Universidad de la República, "20 años de presencia extranjera en el sistema bancario uruguayo", mimeo, August 1987; Stolovich, L., et al., Compra de carteras: crisis del sistema bancario uruguayo, Ediciones de la Banda Oriental, November 1986; Blejer, M.I. and J. Gil Dias, "Domestic and External Factors in the Determination of the Real

Interest Rate: The Case of Uruguay", Economic Development and Cultural Change (34,3), April 1986; Macadar, L., "External Debt, Recessive Adjustment and Recovery in a Redemocratization Framework: The Uruguayan Case", document presented at Workshop on Latin America's External Debt Problem held in Stockholm during 7-8 May 1985; Centro de Investigaciones Económicas (CINVE), La crisis uruguaya y el problema nacional, Ediciones de la Banda Oriental, Montevideo, 1984; Blejer, M.I., "Liberalization and Stabilization Policies in the Southern Cone Countries", Journal of Inter-American Studies and World Affairs (25,4), November 1983; Hanson, J. and J. de Melo, "The Uruguayan Experience with Liberalization and Stabilization, 1974-1981", Journal of Inter-American Studies and World Affairs (25,4), November 1983; Mezzera, J., El proceso de apertura uruguayo en la esfera real, consultant report prepared for ECLAC, E/CEPAL/IN.17, 17 November 1981; Wonservers, I. and D. Sarachaga, La apertura financiera, consultant report prepared for ECLAC, E/CEPAL/IN.14, 9 November 1981; Wonservers, I. and J. Notaro, La liberalización de precios y los mercados y la reducción y reorientación de la acción económica del Estado, consultant report prepared for ECLAC, E/CEPAL/IN.13, 9 November 1981.

68/ In an interview the principal Chilean TNB debt negotiator suggested that "Mexico followed exactly the same criteria as ourselves". See "Hernán Somerville: el domador de la deuda chilena", Apsi, 267, 29 August 1987, p. 31.

69/ A sampling of the literature for the case of Argentina would include the following publications: Calcagno, Alfredo Eric, "Los bancos transnacionales y el endeudamiento externo en la Argentina", Cuadernos de la CEPAL, 56, report prepared for the Interregional Project on TNBs, LC/G.1483-P*, Santiago, November 1987; Calcagno, Alfredo Eric, La perversa deuda argentina, Editorial Legasa, Buenos Aires, 17 July 1985; Frenkel, R., Fanelli, J. M. and J. Sommer, El proceso del endeudamiento externo argentino, document presented to the seminar entitled World Economy and Latin America Development organized by the Economic System for Latin America (SELA) and held in Caracas during 4-8 May 1987; Garcia, A. and J. Silva, "Historia de la renegociación de la deuda externa argentina", Boletín Informativo Techint, No. 245, January-February 1987; Calvo, G.A., "Fractured Liberalism: Argentina under Martínez de Hoz", Economic Development and Cultural Change (34,3), 1986; Frenkel, R. and J.M. Fanelli, Argentina y el Fondo en la última década, mimeo, May 1985; Diamond, M. and D. Naszewski, Argentina's Foreign Debt: Its Origins and Consequences, in M.S. Wionczek (ed.), Politics and Economics of External Debt Crisis: The Latin America Experience, Westview Press, Boulder, Colorado, 1985; Ferrer, Aldo, "La reforma financiera de la cesación de pagos a la Argentina viable", Comercio Exterior (31,11), November 1983; Schvarzer, J., "Argentina 1976-1981: el endeudamiento externo como pivote de la especulación financiera", Economía de América Latina, CIDE, 10, first semester of 1983; Sourrouille, Juan, Transnacionalización y política económica de Argentina, CET, R/146/e, July 1983; Beccaria, L. and R. Carciofi, "The Recent Experience of Stabilizing and Opening up the Argentinian Economy", Cambridge Journal of Economics, 6, 1982; Sourrouille, Juan V., "Política económica y procesos de desarrollo. La experiencia argentina entre 1976 y 1981", Estudios e Informes de la CEPAL, No. 27, E/CEPAL/G.1233, Santiago, June 1983; Ferrer, Aldo, "El monetarismo en Argentina y Chile", Comercio Exterior (31,1), January 1981; Frenkel, R., "La apertura financiera externa: el caso de Argentina", Notas técnicas de CIEPLAN, No. 28, February 1981.

70/ Aside from the mentioned ECLAC study on the external debt of Peru, some of the other relevant literature is the following: Macroconsult S.A., Principales características de la deuda externa peruana y estrategias de negociación frente a la crisis de endeudamiento externo, document presented to SELA seminar in Caracas, 4-8 May 1987; Ugarteche, O., El estado deudor: economía política de la deuda: Perú y Bolivia, 1968-1984, Instituto de Estudios Peruanos, Lima, October 1986; Choy Chong, Gladys, "Comercio compensado y pago en especie de la deuda pública externa: Perú, 1984-1985", Monetaria, 1986; "Special Report: Peru's Foreign Debt", The Andean Report, Lima, July 1986; Banco Central de Reserva del Perú, "Reflexiones sobre los problemas del desarrollo y la deuda externa", CEMLA Boletín (xodii,3), May/June 1986; Webb, R., Domestic Crisis and Foreign Debt in Peru, paper presented to CIEPLAN seminar, Santiago, 17-19 May 1986; Moreyra Loredo, M. and R. Salazar Alvares, El endeudamiento externo del Perú: situación y perspectivas, paper presented to CIEPLAN seminar, 17-19 May 1986; Devlin, R. and E. de la Piedra, "Peru and its Private Bankers: Scenes from an Unhappy Marriage", in Wionczek, M.S. (ed.), Politics and Economics of External Debt Crisis: The Latin American Experience, Westview, Boulder, CO., 1985; Alva Castro, L., Endeudamiento externo del Perú: bases para una posición conjunta en el contexto latinoamericano, Lima, 1985; Banco Central de Reserva del Perú, La renegociación de la deuda externa, 1983-1984: el caso peruano, Lima, January 1985; and Sanchez Albavera, F., Empresas transnacionales y financiamiento externo en la economía peruana, paper presented at DESCO seminar, 22-26 October, 1984.

71/ Aside from the ECLAC/UNCTC study on Bolivia and the mentioned document of O. Ugarteche, there is not a lot of literature on this case. One might consult others such as Villarroel, J. and T. Villarroel, "Control institucional de la deuda externa de Bolivia", consultant report prepared for the Interregional Project on TNBs, May 1981; Banco Central de Bolivia, "Estrategias de negociación de la deuda externa pública de Bolivia", La Paz, 1984; ILDES, Foro Económico 4: La deuda externa, La Paz, August 1985; and CEDEX, "Estado de situación de la deuda externa", La Paz, 10 March 1986.

72/ As Sachs and Huizinga, op. cit., put it: "the debt management strategy pursued by the United States and the official financial community since 1982 has been geared toward the protection of the large commercial banks, at least on a short-run accounting basis", p. 557.

73/ The lending activities of the multilateral development banks are shown in IMF, International Capital Markets: Developments and Prospects, Washington, D.C., December 1986, table 53, p. 143. Data for the IMF are contained in Feinberg, R. and E. Bacha, "When Supply and Demand Don't Intersect: Latin America and the Bretton Woods Institutions in the 1980s", paper presented to SELA seminar on the world economy and Latin American development held in Caracas in May of 1987.

74/ As has been demonstrated by IMF data on the subject, spontaneous lending to Latin American debtors fell from US\$18.9 billion in 1982 to US\$0.5 billion in 1984. See "Recent Developments in External Debt Restructuring", IMF Occasional Paper, No. 40, Washington, D.C., October 1985, table 18, p. 63.

75/ Fishlow, A., "Lessons from the Past: Capital Markets during the 19th Century and the Interwar Period", International Organization (39,3), Summer, 1985, p. 437.

76/ Kaletsky, A., The Costs of Default, Twentieth Century Fund Inc., Priority Press Publications, New York, 1985, p. 1. R.L. Ground contends that

the adjustment in Latin America was unnecessarily costly and the recovery unduly and painfully slow. See his "Origin and Magnitude of Recessionary Adjustment in Latin America", CEPAL Review, No. 30, December 1986.

77/ Consult Milivojevic, M., The Debt Rescheduling Process, St. Martin's Press, New York, 1985, p. x.

78/ IBRD, World Debt Tables, 1984-1985 Edition, Washington, D.C., 1985, p. xxvii.

79/ The differences between the European strategy and the United States one are dealt with in some detail by IRELA, "Europa y la deuda externa de América Latina", *op. cit.*, especially pp. 5-10.

80/ According to the World Bank, "relying only on a restoration of creditworthiness is no longer a viable option, even for those countries that, in 1984, seemed well on the way to regaining access to international financial markets. For the majority of countries facing debt-servicing difficulties (by number, if not by size of debt), it never was". See IBRD, World Debt Tables, 1985-1986 Edition, Washington, D.C., 1986, p. xxi.

81/ See "The LDC Debt Problem: At the Midpoint?", World Financial Markets, October/November 1984, p. 9.

82/ Criticism of the role of the IMF-supported stabilization and adjustment programmes generally followed the line of argumentation evidenced in one more of the studies listed below:

Dell, S., "Stabilization: the Political Economy of Overkill", World Development (10,8), 1982; Ground, R.L., "El sesgo recesivo de las políticas de ajuste del Fondo Monetario Internacional", ECLAC, Santiago, December 1985, mimeo; Pastor Jr., M., "The Effects of IMF Programs in the Third World: Debate and Evidence from Latin America", World Development (15,2), 1987; and Intergovernmental Group of Twenty-Four, on International Monetary Affairs, "The Role of the IMF in Adjustment and Growth", Report of the Working Group of G-24, IMF, Washington, D.C., 25 March 1987.

83/ See de Larosiere, J., "Progress on the International Debt Strategy", Finance and Development, March 1987, p. 10.

84/ See IMF, "International Capital Markets: Developments and Prospects", IMF Occasional Paper, No. 43, Washington, D.C., February 1986, p. 17.

85/ "Debt Strategy Must Be Flexible Managing Director Tells Banks", IMF Survey, 2 June 1986, p. 165.

86/ According to one IMF study, the enhanced surveillance mechanism was developed to improve a country's capacity to design, implement, and monitor economic policies and to provide information about those policies to creditors; to support banks' risk evaluation through timely and comprehensive information and through the Fund's forward-looking assessment of domestic policies; and to foster a shift in responsibility for lending decisions back to commercial banks by avoiding on/off financing indications from the Fund. Enhanced surveillance was conceived as an exceptional and temporary adaptation of Fund procedures and practices for countries with a good record of adjustment and in a position to present an adequate quantified policy programme in the framework of consultations with the Fund; it was not intended to become a substitute for stand-by and extended arrangements. See International Capital Markets: Developments and Prospects, Washington, D.C., December 1986, p. 59.

87/ MYRAS offered many advantages. According to the World Bank: Multiyear agreements are an important advance in managing debt problems for several reasons. For countries that have embraced appropriate policies, removing the

need for annual negotiations to deal with payments that cannot be made as originally scheduled is only sensible. Uncertainty falls, allowing debtors to pursue what often will be lengthy and difficult adjustment programmes with greater assurance. Multiyear rescheduling is also efficient; it frees the time of finance ministers and other senior officials, time that is better spent dealing with internal policy problems than is pursuing essentially routine, albeit important, negotiations with creditors. And, importantly, potential new creditors are assured that their loans will not be used to pay off old creditors, but to boost the borrowers' productive potential, thus establishing the preconditions for repayment. Consult World Debt Tables, 1985-1986 Edition, Washington, D.C., 1986, pp. xcii-xciii.

88/ The IMF has indicated with clarity their understanding of the TNBs' reaction to the Baker Initiative and the particular role they were assigned in the following fashion: "The US debt initiative has also been welcomed by the international banking community. In messages received by the Managing Director of the Fund and the President of the World Bank, banks from the major financial centers —accounting for an overwhelming majority of bank claims on heavily indebted, middle-income countries— have indicated their willingness to play their part in implementing the strategy on a case-by-case basis, and in collaboration with all other relevant parties —including debtor and creditor governments and the international institutions. In the United States, banks accounting for more than 95 percent of US bank claims on the heavily indebted, middle-income countries have indicated their support. In the aggregate, indications of support have been received from banks in financial centers that account for more than 90 percent of total loan exposure to these countries", IMF Occasional Paper, No. 43, February 1986, p. 18.

89/ Consult "Bankers' Latin Headaches Are Throbbing Again", The Economist, 31 January 1987, p. 68. For a favourable view of muddling through by the former chairman of United States President Reagan's Council of Economic Advisors, see "Latin America's Debt: muddling through can be just fine", The Economist, 27 June 1987, pp. 21-25.

90/ World Debt Tables, 1985-1986 Edition, Washington, D.C., 1986, p. viii.

91/ World Debt Tables, 1986-1987 Edition, Washington, D.C., 1987, pp. xv-xvi.

92/ "The Baker Debt Initiative: what it really offers and how it falls short", Business Latin America, 11 December 1985, p. 399.

93/ See Guttentag, J. and R. Herring, "Provisioning, Charge-offs and the Willingness to Lend", IMF Departmental Memoranda, DM/86/42, 17 June 1986, p. 25.

94/ Consult IRELA document, op. cit., p. 9 and Williamson, op. cit., p. 20.

95/ Refer to IRELA, ibid., p. 25.

96/ For example, the Federal Reserve pushed for more uniform capital adequacy standards and even went so far as to issue a statement on the payment of cash dividends by banks with difficulties, which might be viewed as a rebuke of the apparent misuse by money centre banks of the additional time given them by way of discretionary decision-making by United States bank supervisors during the first phase of the debt restructuring process. During 1986, a proposal for the introduction of risk-asset ratios, that is, adjusting bank assets for risk (and thereby reducing leverage or capital efficiency) was set out. See OECD, op. cit., passim. Also consult statement

by William Taylor, Staff Director, Division of Banking Supervision and Regulation, Board of Governors of the Federal Reserve System, before the Subcommittee in General Oversight and Investigations of the Committee on Banking, Finance and Urban Affairs, House of Representatives, 21 April 1988.

97/ See, "Is Anybody Paying", The Economist, 14 March 1988, p.82.

98/ Consult table 8 (p. 569) of Sachs and Huizinga, op.cit.

99/ Calculated from data contained in table 7 of Sachs and Huizinga, ibid., p. 569.

100/ Ibid., p. 557.

101/ Remarks by M. Johnson at the XXIVth Meeting of Governors of Central Banks of the American Continent held in Bridgetown, Barbados, on 27 April 1987.

102/ "Lack of Leadership on LDC Debt Decried", The Journal of Commerce, 11 April 1988.

103/ See "Brazil Plays Tough", The Banker, March 1987, p. 3.

104/ According to M.S. Mendelsolm, "Wrong Way to Tackle debt", The Banker, March 1987, p. 31.

105/ "Banks Slither on the Citi Slick", The Economist, 30 May 1987, p. 77.

106/ See Sachs and Huizinga, op. cit., p. 573, and "The Loan Market Laughs at Citicorp", The Economist, 25 July 1987.

107/ Consult "Banks Slither on the Citi Slick", op. cit.

108/ "US banks: Ups and downs", The Banker, March 1988 and "New York Banks Hang Together", The Economist, 23 January 1988.

109/ "Brazil: Nuts to you too", The Economist, 12 September 1987, p. 84.

110/ "A Survey of International Banking", op. cit., p. 6.

111/ "Cooke's Medicine: Kill or Cure?", Euromoney, July 1988, p. 34.

112/ Ibid., p. 51.

113/ Consult table 3 (p. 11) of Williamson, op. cit., for a comparative picture of major creditor country reserve policies.

114/ Ibid., pp. 20-21.

115/ Ibid., p. 21.

116/ See "Finance: Canadian Bankers Urge Interest Rate Cuts For Third World", SUNS, 1755, 17 July 1987.

117/ Williamson, op. cit., p. 21.

118/ Refer to "Third World: Call for Partial Repayment in Local Currency", SUNS, 1749, 25 May 1987.

119/ Consult the World Bank, Debt Management and Financial Advisory Services Department, The Market-Based Menu Approach, Washington, D.C. 1988.

120/ "Playing King of the Hill at the Toronto Summit", Business Week, 4 July 1988, p. 35. Also, consult "The Miyazawa Plan: Any interest from debtors?", The Economist, 6 August 1988, p. 64.

121/ See Euromoney, July 1988, p. 42.

122/ It might be recalled that Citicorp in 1987 had made Mexico a different kind of offer, one firmly rejected by the Mexicans. Citicorp's chairman described it in the following manner: "Obviously, our most attractive investment is in ourselves. I said to the Mexicans, when I was talking about putting some equity in -- if they'd let me increase the capital of Citicorp in Mexico by a hundred million dollars, because you really are investing in something that you know." See "Citicorp's Reed Outlines Path on Third World Loans", The Wall Street Journal, 28 May 1987.

123/ Consult Quale Jr., Andrew, "New Approaches to the Management and Disposition by US Banks of their LDC Debt: Debt/Equity Conversions and the Mexican Debt Securitization and Collateralization Scheme", paper presented to

seminar on debt-equity swaps held in Caracas, Venezuela, 27-29 April 1988, pp. 37-47.

124/ See "Mexico's Swap Gamble", South, March 1988, p. 21 and "Sanity at Last on Third World Debt", Fortune, February 1988, p. 8.

125/ See Chapter III of ECLAC, The Evolution of the External Debt Problem..., op. cit., pp. 34-36. Also consult Section V of de la Piedra, E., "Latin America: Debt Service versus Growth, What Next?", Data Resources Inc., World Service: Latin American Review, Fourth Quarter, 1987, Vol. 8, No. 4, p. 164.

126/ Refer to Bennett, B. A. and G. C. Zimmerman, "US Banks' Exposure to Developing Countries: An examination of recent trends", Economic Review, No. 2, Federal Reserve Bank of San Francisco, Spring, 1985, pp. 14 and 19-20. The share of the Baker 15 debtor countries in the overall international loans outstanding of United States banks rose from 25.9 to 31.3% between 1982 and 1986. The share of the nine money centre banks in United States bank exposure to the troubled debtors increased from 56.4 to 62.7% over the same interim.

127/ See Quale, op. cit., passim and "Amendment to Regulation K", Federal Reserve Bulletin (74, 4), April 1988, p. 232.

128/ American Institute of Certified Public Accountants (AICPA), Practice Bulletin, October 1987.

129/ "Big Banks Shift from 3d World", The New York Times, 28 July 1988 and "Banks Step Up Third World Debt Disposal - New York Institutions Lag the Pace, However", The Wall Street Journal, 26 July 1988.

130/ Debt-equity swaps are the most talked of forms of debt conversions during the recent period. One should not forget other instrumentalities, such as, debt to bond, debt to goods, debt buy-backs or swaps of foreign currency debt for other local currency assets.

131/ "A Survey of International Banking", op. cit., p. 38

132/ Consult Editorial page of 25 July 1988 issue.

133/ See "American Money-Centre Banks: A Pile of Junk", The Economist, 6 February 1988 and "Third World Debt: At the Discount Store", The Economist, 12 March 1988, p. 90.

Annex 1

OPEC INTERNATIONAL BANK DEPOSITS, 1974-1980

(Billions of 1980 US dollars)

	1974	1975	1976	1977	1978	1979	1980	Annual average 1974-80
1. Eurocurrency deposits	37.5	13.4	15.9	21.5	8.1	37.4	43.0	25.3
2. In United States	7.2	0.9	2.7	0.5	1.0	5.7	-1.3	2.4
3. Other deposits	4.1	0.9	-1.3	1.6	-	2.2	2.6	1.4
4. Total	48.8	15.2	17.3	23.6	9.0	45.3	44.3	29.1
1 as percentage of total (4)	77	88	92	91	89	82	97	88
1 as percentage of all OPEC international placements a/	51	23	29	39	29	65	44	38

Source: ECLAC/CTC Joint Unit on basis of information from World Bank, World Development Report, 1985, Washington, D.C., July 1985, p. 89.

a/ A significant amount of OPEC resources were invested in other international financial instruments, such as concessional assistance, syndicated Eurocurrency credits, bond issues and direct investment, nonetheless, bank deposits represented the single largest item.

Annex 2

GROSS NEW INTERNATIONAL BOND ISSUES AND BANK CREDITS COMMITMENTS, */
1974-1986

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
<u>Billions of 1980 US dollars</u>													
I. International bond issues	21.0	33.8	49.1	47.3	45.7	45.4	39.8	48.0	63.9	62.2	85.8	123.8	163.6
Floating rate notes and CDs <u>a/</u>	0.2	0.5	2.0	2.9	3.5	4.7	14.9	10.3	13.0	15.7	29.4	43.0	36.6
Fixed rate instruments	20.8	33.3	47.1	44.4	42.1	40.7	24.9	37.8	51.0	46.5	56.4	80.8	127.0
II. International bank credits	48.6	31.6	40.3	44.8	90.1	88.7	81.0	134.4	87.5	65.1	86.4	86.9	100.8
Syndicated loans	48.6	31.6	40.3	44.8	90.1	88.7	81.0	86.1	83.1	54.2	43.8	31.0	34.8
Other intl. credit facilities <u>b/</u>	£/	£/	£/	£/	£/	£/	£/	48.3	4.4	10.9	42.5	55.9	66.0
Total	69.6	65.4	89.4	92.1	135.8	134.1	120.8	182.4	151.4	127.3	172.2	210.7	264.4
<u>Percentage distribution</u>													
I. International bond issues	30	52	55	51	34	34	33	26	42	49	50	59	62
Floating rate notes and CDs <u>a/</u>	...	...	2	3	3	4	12	6	9	12	17	20	14
Fixed rate instruments	30	51	53	48	31	30	21	21	33	37	33	38	48
II. International bank credits	70	48	45	49	66	66	67	74	58	51	50	41	38
Syndicated loans	70	48	45	49	66	66	67	47	55	33	25	15	13
Other intl. credit facilities <u>b/</u>	£/	£/	£/	£/	£/	£/	£/	26	3	9	25	27	25
Total	100	100	100	100	100	100	100	100	100	100	100	100	100

Source: ECLAC/CTC Joint Unit on basis of information from OECD, Financial Market Trends, various issues.

*/ Publicly announced medium and long term lending.

a/ CDs = certificates of deposit.b/ Bank facilities used to back up the issuance of other financial instruments such as short-term Euronotes, certificates of deposit, bankers acceptances, and commercial paper.c/ Before 1981, minor amounts corresponding to these instruments are included in syndicated loans.

Annex 3

TOTAL GROSS AMOUNTS RAISED BY DEVELOPING COUNTRIES ON INTERNATIONAL FINANCIAL MARKETS,
1974-1986

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
I. In billions of 1980 US dollars													
Bonds <u>a/</u>	14.5	18.1	23.1	28.3	46.5	52.9	36.9	43.9	37.7	28.1	20.3	17.7	11.6
Bank credits <u>b/</u>	0.5	0.8	2.3	5.0	5.0	2.5	1.4	3.1	3.4	2.1	2.8	5.9	3.2
	14.0	17.4	20.9	23.3	41.5	50.4	35.5	40.9	34.3	26.0	17.5	11.8	8.4
II. As percentage of total market borrowing													
Bonds	21	28	26	31	34	39	31	24	25	22	12	8	4
Bank credits	2	2	5	11	11	6	4	7	5	3	3	5	2
	29	55	52	52	46	57	44	30	39	40	20	14	8
III. As percentage of total LDC borrowing													
Bonds	100	100	100	100	100	100	100	100	100	100	100	100	100
Bank credits	4	4	10	18	11	5	4	7	9	8	14	33	28
	96	96	90	82	89	95	96	93	91	92	86	67	72

Source: ECLAC/CTC Joint Unit based on information from OECD, Financial Market Trends, various issues.

a/ International and foreign issues.

b/ Medium and long term syndicated loans.

Annex 4

EXTERNAL LENDING AND DEPOSIT TAKING OF BANKS IN THE BANK FOR INTERNATIONAL SETTLEMENTS
REPORTING AREA, a/ BY MAJOR GROUPS OF COUNTRIES, 1974-1985
(Billions of 1980 US dollars)

	1974 <u>a/</u>	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
I. Lending to	85.3	61.4	99.3	98.2	109.9	139.8	160.0	150.1	156.6	112.1	147.7	195.6
Industrial countries	37.5	15.4	44.0	56.3	46.4	77.2	96.0	90.1	105.0	74.2	90.0	149.8
Developing countries	30.7	35.3	42.6	32.7	50.1	53.7	55.0	48.2	43.2	30.6	12.3	6.6
(Oil-exporting) <u>b/</u>	(5.1)	(12.3)	(12.8)	(13.1)	(18.3)	(7.8)	(6.0)	(1.8)	(8.5)	(5.6)	(-1.5)	(0.7)
(Non-oil)	(25.6)	(23.0)	(29.8)	(19.6)	(31.7)	(45.9)	(49.0)	(46.4)	(34.7)	(25.0)	(13.9)	(5.9)
Others <u>c/</u>	17.1	10.8	12.8	9.2	13.4	8.9	9.0	11.8	7.6	7.3	45.4	39.1
II. Deposit taking from	85.3	61.4	99.3	98.2	109.9	139.8	160.0	150.1	156.6	112.1	147.7	195.6
Industrial countries	...	50.7	56.7	60.2	83.0	73.8	103.0	128.2	127.0	71.0	102.3	152.0
Developing countries	...	26.1	36.9	34.0	20.8	55.9	49.0	12.7	3.4	23.4	17.7	17.7
(Oil-exporting) <u>b/</u>	(51.2)	(21.5)	(17.0)	(15.7)	(3.7)	(41.4)	(41.0)	(4.5)	(-8.5)	(-2.4)	(0.8)	(5.9)
(Non-oil)	...	(4.6)	(19.9)	(18.3)	(17.1)	(14.5)	(8.0)	(8.2)	(11.9)	(25.8)	(16.9)	(11.8)
Others <u>c/</u>	...	-15.4	5.7	3.9	6.1	10.1	8.0	9.1	26.2	17.7	27.7	18.5
III. Change in net claims on												
Industrial countries	...	-35.3	-12.8	-3.9	-36.6	3.4	-7.0	-38.2	-30.5	3.2	-12.3	-2.2
Developing countries	...	9.2	5.6	-1.3	29.3	2.2	6.0	35.5	39.8	7.3	-5.4	-11.0
(Oil-exporting) <u>b/</u>	...	(-9.2)	(-4.3)	(-2.6)	(14.7)	(-33.6)	(-35.0)	(-2.7)	(18.6)	(8.1)	(-2.3)	(-5.2)
(Non-oil)	...	(18.4)	(9.9)	(1.3)	(14.7)	(31.3)	(41.0)	(38.2)	(21.2)	(-0.8)	(-3.1)	(-5.9)
Others <u>c/</u>	...	26.1	7.1	5.2	7.3	-5.6	1.0	2.7	-9.3	-10.5	17.7	13.3

Sources: ECLAC/CTC Joint Unit on basis of information from IMF Occasional Papers on International Capital Markets (Nos 1, 23 and 43).

a/ Complete data for 1974 are not available.

b/ Up to 1983 the reporting area includes banks in the Group of Ten countries, Luxembourg, Austria, Denmark and Ireland, plus the offshore branches of US banks in the Bahamas, the Cayman Islands, Panama, Hong Kong, Singapore. As from 1984 the reporting area includes in addition Finland, Norway and Spain as well as non-US banks engaged in international business in the Bahamas, the Cayman Islands, Hong Kong, Singapore and all offshore banks operating in the Netherlands Antilles.

b/ Consisting of the eight Middle Eastern oil exporters (Islamic Republic of Iran, Iraq, Kuwait, Libyan Arab Jamahiriya, Oman, Qatar, Saudi Arabia, and the United Arab Emirates) plus Algeria, Indonesia, Nigeria and Venezuela.

c/ Includes centrally planned economies (excluding IMF member countries), international organizations and unallocated. As of 1984 includes offshore centers.

Annex 5

VOLUME OF INTERNATIONAL BANK LOANS RAISED ON INTERNATIONAL MARKETS a/ AND THEIR
DISTRIBUTION BY AREA AND REGION FOR DEVELOPING COUNTRY BORROWERS, 1974-86
(Billions of 1980 US dollars)

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
I. By area (US\$ billions 1980)	47.9	31.3	38.6	41.8	86.7	88.1	78.0	81.0	76.6	48.5	39.5	29.8	34.2
Industrial countries	31.2	9.4	14.6	17.5	43.6	32.3	41.8	43.4	46.4	25.8	22.0	14.3	23.2
Developing countries <u>b/</u>	13.3	17.0	19.1	20.4	38.1	49.4	32.5	35.7	27.8	20.3 <u>c/</u>	13.2 <u>c/</u>	10.6	7.8
Centrally planned and others <u>c/</u>	3.4	4.9	4.9	3.9	5.0	5.9	3.7	1.9	2.4	2.4	4.3	4.9	3.2
Percentage distribution	100	100	100	100	100	100	100	100	100	100	100	100	100
Industrial countries	65	30	38	42	50	37	53	54	61	53	56	48	68
Developing countries <u>b/</u>	28	54	49	49	44	57	42	44	36	42 <u>h/</u>	33 <u>h/</u>	36 <u>h/</u>	23
Centrally planned and others <u>c/</u>	7	16	13	9	6	6	5	2	3	5	11	16	9
II. By region (developing countries) <u>b/</u>	13.3	17.0	19.1	20.4	38.1	49.9	32.5	35.7	27.8	20.3	13.2	10.6	7.8
Latin America and Caribbean <u>d/</u>	7.8	9.2	12.4	12.0	21.2	29.1	20.1	22.7	18.7	12.3	8.8	4.4	0.3
Asia and Pacific <u>e/</u>	3.3	5.8	4.1	5.0	9.2	9.9	7.5	8.6	6.9	5.4	4.0	4.3	5.1
Africa <u>f/</u>	1.2	1.6	2.2	2.7	6.4	5.5	2.9	3.6	1.4	1.9	0.1	0.7	0.9
Southern Europe <u>g/</u>	1.0	0.4	0.4	0.7	1.3	5.4	2.0	0.8	0.8	0.7	0.3	1.2	1.4
Percentage distribution	100	100	100	100	100	100	100	100	100	100	100	100	100
Latin America and Caribbean <u>d/</u>	59	54	65	59	56	58	62	64	67	60	67	42	4
Asia and Pacific <u>e/</u>	25	34	22	24	24	20	23	24	25	27	30	41	66
Africa <u>f/</u>	9	10	11	13	17	11	9	10	5	10	1	6	11
Southern Europe <u>g/</u>	7	2	2	4	3	11	6	2	3	3	2	11	19

Annex 5 (concl.)

Source: Calculated from OECD, Financial Market Trends, various issues.

- a/ Medium and long term external bank loans. Figures previous to 1980 include small amounts of other international credit facilities.
- b/ Includes 89 developing countries which had access to international bank loans at sometime during the 1974-1986 period.
- c/ Includes international development institutions.
- d/ Excludes Bermuda and Puerto Rico.
- e/ Excludes Gulf States (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates). Includes Taiwan province of China.
- f/ Excludes South Africa.
- g/ Cyprus, Turkey and Yugoslavia only.
- h/ Reprogrammed principal payments excluded. Fresh capital associated with agreements restructuring maturities are included and totaled US\$11.3, 8.1 and 4.8 billion (1980 values) for the years 1983, 1984 and 1985 respectively.

Annex 6

CHARACTERISTICS OF THE PUBLIC AND PUBLICLY GUARANTEED LONG TERM
DEBT OF 75 DEVELOPING COUNTRIES, BY STOCK ELEMENT AND SOURCE,
SELECTED YEARS 1974-1986
(Billions of 1980 US dollars)

	1974	1978	1980	1982	1986
I. Creditors of public and publicly guaranteed debt <u>a/</u>	<u>160.1</u>	<u>275.0</u>	<u>313.6</u>	<u>337.3</u>	<u>478.8</u>
Official creditors	96.0	131.1	140.6	146.1	203.0
(Multilateral) <u>b/</u>	(24.3)	(40.5)	(47.6)	(55.2)	(80.2)
(Bilateral) <u>c/</u>	(71.7)	(90.6)	(93.0)	(90.9)	(122.8)
Private creditors	64.1	143.9	173.0	191.2	275.8
(Suppliers) <u>d/</u>	(18.5)	(24.7)	(21.9)	(18.1)	(23.1)
(Banks) <u>e/</u>	(38.2)	(103.8)	(137.1)	(156.0)	(228.1)
(Other: incl. bonds) <u>f/</u>	(7.4)	(15.4)	(14.0)	(17.1)	(24.6)
<u>Percentage distribution</u>					
I. Creditors: public debt <u>a/</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
Official creditors	60	48	45	43	42
(Multilateral) <u>b/</u>	(16)	(16)	(17)	(18)	(17)
(Bilateral) <u>c/</u>	(45)	(33)	(30)	(27)	(26)
Private creditors	40	52	55	57	58
(Suppliers) <u>d/</u>	(12)	(9)	(7)	(6)	(5)
(Banks) <u>e/</u>	(24)	(38)	(44)	(46)	(48)
(Other: incl. bonds) <u>f/</u>	(4)	(5)	(4)	(5)	(5)

Source: Calculated from information from the Debtor Reporting System (DRS) of the World Bank.

- a/ External obligations of a public debtor, including the national government, a political subdivision (or an agency of either) and autonomous public bodies, or of a private debtor that is guaranteed for repayment by a public entity.
- b/ Loans and credits from the World Bank, regional development banks and other multilateral and intergovernmental agencies. Excluded are loans from funds administered by an international organization on behalf of a single donor government; these are classified as loans from governments.
- c/ Loans from governments and their agencies (including central banks) and loans from autonomous bodies.
- d/ Credits from manufacturers, exporters or other suppliers of goods.
- e/ Loans from private banks and other private financial institutions.
- f/ Publicly issued and privately placed bonds or similar instruments, plus other creditors.

Annex 7

CHARACTERISTICS OF PUBLIC AND PUBLICLY GUARANTEED LONG TERM DEBT OF 75 DEVELOPING COUNTRIES,
BY FLOW ELEMENT AND SOURCE, 1974-1986
(Billions of 1980 US dollars)

	Annual averages		
	1974-1977	1978-1982	1983-1986
1. <u>Disbursements</u>	<u>48.7</u>	<u>72.7</u>	<u>51.1</u>
Official creditors	18.9	22.8	21.9
Multilateral <u>a/</u>	(6.4)	(9.4)	(11.4)
Bilateral <u>b/</u>	(12.5)	(13.4)	(10.5)
Private creditors	29.8	49.8	29.2
Suppliers <u>c/</u>	(6.1)	(5.8)	(4.5)
Banks <u>d/</u>	(21.8)	(40.9)	(22.3)
Other: incl. bonds <u>e/</u>	(1.9)	(3.6)	(2.6)
2. <u>Principal repayments</u>	<u>14.0</u>	<u>27.2</u>	<u>25.7</u>
Official creditors	4.4	6.2	8.9
Multilateral <u>a/</u>	(1.0)	(1.6)	(3.4)
Bilateral <u>b/</u>	(3.4)	(4.6)	(5.5)
Private creditors	9.6	21.0	16.8
Suppliers <u>c/</u>	(3.6)	(4.4)	(3.4)
Banks <u>d/</u>	(5.0)	(15.6)	(12.3)
Other: incl. bonds <u>e/</u>	(1.0)	(1.0)	(1.1)
3. <u>Interest payments</u>	<u>8.4</u>	<u>21.3</u>	<u>28.2</u>
Official creditors	3.3	5.2	7.2
Multilateral <u>a/</u>	(1.4)	(2.4)	(3.7)
Bilateral <u>b/</u>	(1.9)	(2.8)	(3.5)
Private creditors	5.1	16.1	21.0
Suppliers <u>c/</u>	(1.0)	(1.4)	(1.4)
Banks <u>d/</u>	(3.7)	(13.7)	(18.2)
Other: incl. bonds <u>e/</u>	(0.4)	(1.0)	(1.4)
4. <u>Net transfer [1-(2+3)]</u>	<u>26.3</u>	<u>24.2</u>	<u>-2.8</u>
Official creditors	11.2	11.4	5.7
Multilateral <u>a/</u>	(4.0)	(5.4)	(4.2)
Bilateral <u>b/</u>	(7.2)	(6.0)	(1.5)
Private creditors	15.1	12.8	-8.6
Suppliers <u>c/</u>	(1.5)	(0.0)	(-0.3)
Banks <u>d/</u>	(13.1)	(11.6)	(-8.2)
Other: incl. bonds <u>e/</u>	(0.5)	(1.2)	(-0.1)

Source: Calculated from World Bank, DRS tape.

a/ Loans and credits from the World Bank, regional development banks and other multilateral and intergovernmental agencies. Excluded are loans from funds administered by an international organization on behalf of a single donor government; these are classified as loans from governments.

b/ Loans from governments and their agencies (including central banks) and loans from autonomous bodies.

c/ Credits from manufacturers, exporters, or other suppliers of goods.

d/ Loans from private banks and other private financial institutions.

e/ Publicly issued and privately placed bonds or similar instruments.

Annex 8

CHARACTERISTICS OF THE PUBLIC AND PUBLICLY GUARANTEED LONG-TERM
DEBT OF 24 MAJOR ^{*}/ DEVELOPING COUNTRY BORROWERS, BY STOCK
ELEMENT AND SOURCE, SELECTED YEARS, 1974-1986
(Billions of 1980 US dollars)

	1974	1978	1980	1982	1986
1. Creditors of public and publicly guaranteed debt ^{a/}	<u>92.6</u>	<u>177.3</u>	<u>204.6</u>	<u>224.8</u>	<u>325.5</u>
Official creditors	41.8	55.3	59.8	62.9	92.3
(Multilateral) ^{b/}	(13.7)	(20.1)	(23.1)	(27.3)	(40.5)
(Bilateral) ^{c/}	(28.1)	(35.2)	(36.7)	(35.6)	(51.8)
Private creditors	50.8	122.0	144.8	161.9	233.2
(Suppliers) ^{d/}	(12.4)	(17.5)	(15.2)	(11.2)	(13.0)
(Banks) ^{e/}	(32.3)	(90.5)	(117.1)	(135.1)	(200.2)
(Bonds and others) ^{f/}	(6.1)	(14.0)	(12.5)	(15.6)	(20.0)
<u>Percentage distribution</u>					
1. Creditors: public debt	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
Official creditors ^{a/}	45	31	29	28	28
(Multilateral) ^{b/}	(15)	(11)	(11)	(12)	(12)
(Bilateral) ^{c/}	(30)	(20)	(18)	(16)	(16)
Private creditors	55	69	71	72	72
(Suppliers) ^{d/}	(13)	(10)	(7)	(5)	(4)
(Banks) ^{e/}	(35)	(51)	(57)	(60)	(62)
(Bonds and other) ^{f/}	(7)	(8)	(7)	(7)	(6)

Source: Calculated from World Bank, DRS tape.

^{*}/ Mexico, Brazil, Argentina, Chile, Peru, Panama, Colombia, Bolivia, Uruguay, Ecuador, Venezuela, Republic of Korea, Philippines, Malaysia, Thailand, Singapore, Papua New Guinea, Algeria, Morocco, Côte d'Ivoire, Gabon, Nigeria, Turkey and Yugoslavia.

For notes, see Annex 6.

Annex 9

**CHARACTERISTICS OF PUBLIC AND PUBLICLY GUARANTEED LONG-TERM DEBT
OF 24 MAJOR */ DEVELOPING COUNTRY BORROWERS, BY FLOW
ELEMENT AND SOURCE, 1974-1986
(Billions of 1980 US dollars)**

	Annual averages		
	1974-1977	1978-1982	1983-1986
1. <u>Disbursements</u>	<u>32.3</u>	<u>53.0</u>	<u>31.8</u>
Official creditors	8.1	10.7	11.2
Multilateral <u>a/</u>	(3.3)	(4.8)	(6.6)
Bilateral <u>b/</u>	(4.8)	(5.9)	(4.6)
Private creditors	24.2	42.3	20.6
Suppliers <u>c/</u>	(3.9)	(3.8)	(2.4)
Banks <u>d/</u>	(18.4)	(35.6)	(16.5)
Other: incl. bonds <u>e/</u>	(1.9)	(2.9)	(1.7)
2. <u>Principal repayments</u>	<u>9.9</u>	<u>20.8</u>	<u>18.0</u>
Official creditors	2.5	3.7	5.6
Multilateral <u>a/</u>	(0.7)	(1.1)	(2.4)
Bilateral <u>b/</u>	(1.8)	(2.6)	(3.2)
Private creditors	7.4	17.1	12.4
Suppliers <u>c/</u>	(2.4)	(3.1)	(2.1)
Banks <u>d/</u>	(4.1)	(13.1)	(9.3)
Other: incl. bonds <u>e/</u>	(0.9)	(0.9)	(1.0)
3. <u>Interest payments</u>	<u>6.2</u>	<u>17.1</u>	<u>22.7</u>
Official creditors	1.9	3.1	4.4
Multilateral <u>a/</u>	(1.0)	(1.6)	(2.5)
Bilateral <u>b/</u>	(0.9)	(1.4)	(1.9)
Private creditors	4.3	14.0	18.3
Suppliers <u>c/</u>	(0.7)	(1.0)	(0.8)
Banks <u>d/</u>	(3.2)	(12.1)	(16.2)
Other: incl. bonds <u>e/</u>	(0.4)	(0.9)	(1.3)
4. <u>Net transfer</u> [1-(2+3)]	<u>16.2</u>	<u>15.0</u>	<u>-9.0</u>
Official creditors	3.6	4.0	1.0
Multilateral <u>a/</u>	(1.5)	(2.1)	(1.6)
Bilateral <u>b/</u>	(2.1)	(1.9)	(-0.6)
Private creditors	(12.6)	(11.0)	(-10.0)
Suppliers <u>c/</u>	(0.8)	(-0.3)	(-0.5)
Banks <u>d/</u>	(11.2)	(10.3)	(-8.9)
Other: incl. bonds <u>e/</u>	(0.6)	(1.0)	(-0.6)

Source: Calculated from World Bank, DRS tape.

*/ Mexico, Brazil, Argentina, Chile, Ecuador, Peru, Panama, Colombia, Bolivia, Uruguay, Venezuela, Republic of Korea, Philippines, Malaysia, Thailand, Singapore, Papua New Guinea, Algeria, Morocco, Côte d'Ivoire, Gabon, Nigeria, Turkey and Yugoslavia.

For notes, see Annex 7.

Annex 10

CHARACTERISTICS OF THE PUBLIC AND GUARANTEED LONG TERM DEBT OF
BRAZIL AND MEXICO, BY STOCK AND SOURCE, SELECTED YEARS
1974-1986
(Billions of 1980 US dollars)

	1974	1978	1980	1982	1986
I. Creditors of public and publicly guaranteed debt <u>a/</u>	<u>39.1</u>	<u>68.3</u>	<u>74.2</u>	<u>86.4</u>	<u>113.8</u>
Official creditors	9.3	11.3	11.4	13.1	21.3
(Multilateral) <u>b/</u>	(4.6)	(5.8)	(6.3)	(7.5)	(11.2)
(Bilateral) <u>c/</u>	(4.7)	(5.5)	(5.1)	(5.6)	(10.1)
Private creditors	23.9	57.0	62.8	73.3	92.5
(Suppliers) <u>d/</u>	(2.6)	(2.9)	(2.1)	(1.5)	(2.2)
(Banks) <u>e/</u>	(19.7)	(47.1)	(54.2)	(65.2)	(86.3)
(Other: incl. bonds) <u>f/</u>	(1.6)	(7.0)	(6.5)	(6.6)	(4.0)
<u>Percentage distribution</u>					
I. Creditors: public debt <u>a/</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
Official creditors	28	16	15	15	19
(Multilateral) <u>b/</u>	(14)	(8)	(8)	(9)	(10)
(Bilateral) <u>c/</u>	(14)	(8)	(7)	(6)	(9)
Private creditors	72	84	85	85	81
(Suppliers) <u>d/</u>	(8)	(4)	(3)	(2)	(2)
(Banks) <u>e/</u>	(59)	(69)	(73)	(75)	(76)
(Other: incl. bonds) <u>f/</u>	(5)	(11)	(9)	(8)	(3)

Source: Calculated from World Bank, DRS tape.

For notes, see Annex 6.

Annex 11

CHARACTERISTICS OF PUBLIC AND PUBLICLY GUARANTEED LONG TERM DEBT
OF BRAZIL AND MEXICO, BY FLOW ELEMENT AND SOURCE, 1974-1986
(Billions of 1980 US dollars)

	Annual averages		
	1974-1977	1978-1982	1983-1986
1. Disbursements	<u>13.7</u>	<u>20.4</u>	<u>8.4</u>
Official creditors	1.8	2.3	3.1
Multilateral <u>a/</u>	(0.9)	(1.2)	(1.9)
Bilateral <u>b/</u>	(0.9)	(1.1)	(1.2)
Private creditors	11.9	18.1	5.3
Suppliers <u>c/</u>	(0.7)	(0.4)	(0.4)
Banks <u>d/</u>	(10.3)	(16.4)	(4.8)
Other: incl. bonds <u>e/</u>	(0.9)	(1.3)	(0.1)
2. Principal repayments	<u>3.2</u>	<u>8.3</u>	<u>4.4</u>
Official creditors	0.5	0.9	1.8
Multilateral <u>a/</u>	(0.2)	(0.3)	(0.8)
Bilateral <u>b/</u>	(0.3)	(0.6)	(1.0)
Private creditors	2.7	7.4	2.6
Suppliers <u>c/</u>	(0.5)	(0.4)	(0.2)
Banks <u>d/</u>	(2.1)	(6.7)	(1.8)
Other: incl. bonds <u>e/</u>	(0.1)	(0.3)	(0.6)
3. Interest payments	<u>2.7</u>	<u>7.7</u>	<u>9.4</u>
Official creditors	0.6	0.8	1.2
Multilateral <u>a/</u>	(0.4)	(0.5)	(0.7)
Bilateral <u>b/</u>	(0.2)	(0.3)	(0.5)
Private creditors	2.1	6.9	8.2
Suppliers <u>c/</u>	(0.1)	(0.1)	(0.0)
Banks <u>d/</u>	(1.9)	(6.3)	(7.7)
Other: incl. bonds <u>e/</u>	(0.1)	(0.5)	(0.5)
4. Net transfer [1-(2+3)]	<u>7.8</u>	<u>4.4</u>	<u>-5.4</u>
Official creditors	0.8	0.6	0.2
Multilateral <u>a/</u>	(0.4)	(0.4)	(0.4)
Bilateral <u>b/</u>	(0.4)	(0.2)	(-0.2)
Private creditors	7.1	3.8	-5.6
Suppliers <u>c/</u>	(0.0)	(-0.1)	(0.1)
Banks <u>d/</u>	(6.3)	(3.4)	(-4.7)
Other: incl. bonds <u>e/</u>	(0.7)	(0.5)	(-1.0)

Source: Calculated from World Bank, DRS tape.

For notes, see Annex 7.

Annex 12

TOTAL VALUE OF ASSETS OF TOP 300 BANKS, 1970-85 a/

(Cumulative distribution in percentage)

	1970 <u>c/</u>	1975 <u>c/</u>	1980 <u>c/</u>	1985 <u>c/</u>
Top 10	17	17	17	16
Top 25	33	33	32	32
Top 50	51	52	51	51
Top 100	72	74	73	72
Top 300	100	100	100	100
Total value assets (billions of 1980 US dollars) <u>b/</u>	2 196.3	3 744.2	5 737.9	6 672.4
Average annual rate growth during interim	n.d.	11.3	8.9	3.1

Source: The Banker, various issues (June 1971, June 1976, June 1981 and July 1986).

a/ Converted to dollars at year-end exchange rates by The Banker.

b/ Deflated by consumer price index of industrialized countries (IMF, International Financial Statistics).

c/ Less contra accounts.

Annex 13

TOTAL VALUE OF ASSETS a/ AND NUMBER OF BANKS, BY NATIONALITY,
OF TOP 300 BANKS, 1974-85 b/(Number of banks and per cent total assets c/)

Home country	1974-77		1978-82		1983-85	
	No. banks	% assets	No. banks	% assets	No. banks	% assets
United States	71	23	53	17	53	18
Japan	55	20	53	22	64	27
Germany (FRG)	31	12	33	12	29	8
France	15	9	14	10	12	8
Italy	23	7	20	6	17	5
United Kingdom	10	5	10	6	9	6
Canada	7	4	6	4	6	4
Switzerland	7	3	6	3	5	2
Arab Banks	4	1	12	2	19	3
Others	77	16	93	18	86	19
Total	300	100	300	100	300	100

Source: Calculated from The Banker, various issues (June 75 through July 86).

a/ Converted to dollars at year-end exchange rates by The Banker.

b/ Calculated on real annual average values for each period.

c/ Nominal annual dollar values deflated by consumer price index for industrial countries according to IMF, International Financial Statistics data.

Annex 14

TOTAL VALUE OF ASSETS a/ AND NUMBER OF BANKS, BY NATIONALITY,
OF TOP 25 BANKS, 1974-85 b/(Number of banks and per cent total assets c/)

Home country	1974-77		1978-82		1983-85	
	No. banks	% assets	No. banks	% assets	No. banks	% assets
United States	6	29	4	19	4	18
Japan	6	21	8	28	12	48
France	4	19	4	21	4	17
Germany (FRG)	4	15	4	14	1	4
United Kingdom	2	8	3	12	3	11
Canada	1	3	1	3	1	3
Others	2	6	1	3	-	-
Total	25	100	25	100	25	100

Source: Calculated from The Banker, various issues (June 75 through July 86).

a/ Converted to dollars at year-end exchange rates by The Banker.

b/ Calculated on real annual average values for each period.

c/ Nominal annual dollar values deflated by consumer price index for industrial countries according to IMF, International Financial Statistics data.

Annex 15

TOTAL VALUE OF CAPITAL MOBILIZED VIA SYNDICATED
BANK CREDITS, 1976-84 a/(Cumulative distribution in percentage)

	1976-77	1978-82	1983-84
Top 10	67	49	68
Top 25	96	80	88
Top 50	100	100	100
Average annual value of capital mobilized (billions of 1980 US dollars) <u>b/</u>	41.9	112.0	55.3

Source: Calculated from Euromoney, various issues.a/ Full amount of loan apportioned to sole lead manager and equal amounts to each co-lead manager.b/ Nominal dollar values were deflated by the consumer price index for industrial countries.

Annex 16

TOTAL VALUE OF CAPITAL MOBILIZED VIA SYNDICATED CREDITS a/
BY NATIONALITY OF TOP 50 BANKS, 1976-84 b/(Number of banks and per cent capital mobilized c/)

Home country	1976-77		1978-82		1983-84	
	No. banks	% cap.mob.	No. banks	% cap.mob.	No. banks	% cap.mob.
United States	10	53	10	39	10	64
United Kingdom	7	16	7	14	4	5
Canada	3	6	6	13	4	6
Japan	-	-	5	9	10	13
Germany (FRG)	4	16	5	9	-	-
France	1	2	4	6	3	3
Consortium banks <u>d/</u>	5	6	3	2	1	1
Others	6	1	10	8	18	8
<u>Total</u>	<u>36</u>	<u>100</u>	<u>50</u>	<u>100</u>	<u>50</u>	<u>100</u>

Source: Calculated from Euromoney, various issues.a/ Full amount of loan apportioned to sole lead manager and equal amounts to each co-lead manager.b/ Calculated on real annual average values for each period.c/ Nominal dollar values were deflated by consumer price index for industrial countries, according to IMF, International Financial Statistics.d/ A bank owned by a number of other larger banks none of which have majority control. This modality initially gave smaller banks easier access to the Eurocurrency market. For bigger banks, access to the larger domestic customers of smaller banks was the initial advantage. Later smaller banks tended to enter independently into the Eurocurrency market and consortium banks became scarce. The Economist, "Pocket Banker", London, 1985, pp. 43-44.

Annex 17

LATIN AMERICAN COUNTRIES, BANK EXPOSURE TO PUBLIC AND PRIVATE SECTOR BORROWERS, 1979-1986
(Billions of 1980 US dollars)

	1979	1980	1981	1982	1983	1984	1985	1986
					(r)	(r)	(r)	(r)
I. Stocks								
1. All banks:								
<u>Total debt a/</u>	<u>144.3</u>	<u>162.9</u>	<u>178.9</u>	<u>181.4</u>	<u>181.6</u>	<u>174.8</u>	<u>174.5</u>	<u>173.4</u>
Public sector b/	79.1	82.9	89.1	96.3	120.8	133.7	137.3	147.0
Private sector d/	65.2	80.0	89.8	85.1	60.8	41.1	37.2	26.4
2. Non-US:								
<u>Total debt d/</u>	<u>87.1</u>	<u>101.2</u>	<u>111.1</u>	<u>111.2</u>	<u>113.1</u>	<u>107.8</u>	<u>113.7</u>	<u>116.4</u>
Public sector d/	59.3	63.4	66.9	69.9	90.4	99.2	103.7	110.9
Private sector d/	27.8	37.8	44.2	41.2	22.7	8.5	10.0	5.5
3. US Banks c/:								
<u>Total debt</u>	<u>57.2</u>	<u>61.7</u>	<u>67.8</u>	<u>70.2</u>	<u>68.5</u>	<u>67.1</u>	<u>60.8</u>	<u>57.0</u>
Public sector	19.8	19.5	22.2	26.3	30.4	34.5	33.6	36.1
Private sector	37.4	42.2	45.6	43.9	38.1	32.6	27.2	20.9
a) Top 9:								
Total debt	36.6	38.4	40.5	42.3	41.5	41.7	39.1	36.8
Public sector	14.8	13.9	15.7	21.8	20.9	23.4	23.2	24.9
Private sector	21.8	24.5	24.8	20.5	20.6	18.3	15.9	11.9
b) 158 others:								
Total debt	20.6	23.3	27.3	27.9	27.1	25.4	21.7	20.2
Public sector	5.0	5.6	6.5	4.6	9.5	11.1	10.5	11.2
Private sector	15.6	17.7	20.8	23.3	17.6	14.3	11.2	9.0

Annex 17 (concl.)

Sources: Bank for International Settlements (BIS), The Maturity Distribution of International Bank Lending, Basle, various issues; International Bank for Reconstruction and Development, World Bank Debtor Reporting System magnetic tape; Federal Financial Institutions Examination Council, Statistical Release: Country Exposure Lending Survey, Washington, D.C., various issues. Also consult Organization for Economic Co-operation and Development (OECD), External Debt: Definition, Statistical Coverage and Methodology, Paris, 1988.

- a/ Cross-border claims in all currencies and local claims in non-local currencies for BIS-reporting banks.
- b/ Disbursed and outstanding public and publicly guaranteed medium and long term debt with private banks and other private financial institutions.
- c/ Cross-border and non-local currency claims by US banking organizations reporting to Federal Financial Institutions Examination Council.
- d/ Derived value.

(r) Year in which transnational banks debt restructuring agreements were signed. Disbursements sometimes registered in following year.

Annex 18

MEXICO, BANK EXPOSURE TO PUBLIC AND PRIVATE SECTOR BORROWERS, 1979-1986

(Billions of 1980 US dollars)

	1979	1980	1981	1982	1983 (r)	1984	1985 (r)	1986
1. All banks:								
<u>Total debt a/</u>	<u>34.6</u>	<u>42.5</u>	<u>51.8</u>	<u>53.3</u>	<u>56.0</u>	<u>54.5</u>	<u>53.9</u>	<u>51.2</u>
Public sector <u>b/</u>	24.6	26.1	30.2	33.3	44.4	45.0	44.0	43.6
Private sector <u>d/</u>	10.0	16.4	21.6	20.0	11.6	9.5	9.9	7.6
2. Non-US:								
<u>Total debt d/</u>	<u>21.8</u>	<u>26.8</u>	<u>32.2</u>	<u>32.7</u>	<u>34.8</u>	<u>34.1</u>	<u>35.5</u>	<u>34.1</u>
Public sector <u>d/</u>	19.9	21.5	24.0	25.1	34.7	34.6	34.1	33.1
Private sector <u>d/</u>	1.9	5.3	8.2	7.6	0.1	-0.5	1.4	1.0
3. US Banks <u>c/</u> :								
<u>Total debt</u>	<u>12.8</u>	<u>15.7</u>	<u>19.6</u>	<u>20.6</u>	<u>21.2</u>	<u>20.4</u>	<u>18.4</u>	<u>17.1</u>
Public sector	4.7	4.6	6.2	8.2	9.7	10.4	9.9	10.5
Private sector	8.1	11.1	13.4	12.4	11.5	10.0	8.5	6.6
a) Top 9:								
Total debt	7.3	9.1	10.5	10.9	11.4	11.3	10.4	9.6
Public sector	3.2	2.8	3.8	5.3	5.7	6.1	5.9	6.5
Private sector	4.1	6.3	6.7	5.6	5.7	5.2	4.5	3.1
b) 158								
Others:								
Total debt	5.5	6.6	9.1	9.7	9.8	9.1	8.0	7.5
Public sector	1.5	1.8	2.4	2.9	4.0	4.3	4.0	4.0
Private sector	4.0	4.8	6.7	6.8	5.8	4.8	4.0	3.5

Source: See Annex 17 for sources and notes.

Annex 19

BRAZIL, BANK EXPOSURE TO PUBLIC AND PRIVATE SECTOR BORROWING, 1979-1986

(Billions of 1980 US dollars)

	1979	1980	1981	1982	1983 (r)	1984 (r)	1985	1986 (r)
1. All banks:								
Total debt a/	43.2	45.6	47.9	51.2	49.1	50.3	49.2	50.2
Public sector b/	27.7	28.1	29.9	31.9	35.8	41.2	40.7	42.7
Private sector d/	15.5	17.5	18.0	19.3	13.3	9.1	8.5	7.5
2. Non-US:								
Total debt d/	28.0	31.1	32.6	33.9	32.4	31.9	32.4	34.0
Public sector d/	23.1	23.4	25.6	25.7	29.1	32.0	31.7	32.6
Private sector d/	4.9	7.7	7.0	8.2	3.3	-0.1	0.7	1.4
3. US Banks c/:								
Total debt	15.2	14.5	15.3	17.3	16.7	18.4	16.8	16.2
Public sector	4.6	4.7	4.3	6.2	6.7	9.2	9.0	10.1
Private sector	10.6	9.8	11.0	11.1	10.0	9.2	7.8	6.1
Total debt	9.9	9.4	9.7	11.3	10.7	12.2	11.5	11.1
Public sector	3.3	3.4	3.3	4.9	4.9	6.8	6.6	7.4
Private sector	6.6	6.0	6.4	6.4	5.8	5.4	4.9	3.7
b) 158								
Total debt	5.3	5.1	5.6	6.0	6.0	6.2	5.3	5.1
Public sector	1.3	1.3	1.0	1.3	1.3	2.4	2.4	2.7
Private sector	4.0	3.6	4.6	4.7	4.7	3.8	2.9	2.4

Source: See Annex 17 for sources and notes.

Annex 20

METHODOLOGICAL ASPECTS OF THE ANALYSIS OF THE CASE STUDIES

1. Background

Work on the case studies included here was undertaken at different points of time. Two of these —Bolivia and Peru— were completed relatively early. The methodological aspects of those studies are fully explained in ECLAC/CTC Joint Unit, Transnational Banks and the External Finance of Latin America: the Experience of Peru (E/CEPAL/G.1124, Santiago, December 1983) and Transnational Banks, the State and External Indebtedness in Bolivia (E/CEPAL/G.1251, Santiago, April 1985). The cases of Argentina, Colombia, the Philippines and Uruguay were subsequently added to those of Bolivia and Peru.

2. The creation of the data base from loan contracts

The procedure for each case study was first, the commissioning of a consultant, second, the loan contract data gathering exercise by ECLAC/CTC staff and the consultant, third, the preparation of the consultant's report, fourth, the interview of pertinent public officials, and, fifth, any updating exercises as may have been necessary. The loan contract information gathering exercise was critical to the successful completion of case studies.

The kind of information gathered is better understood by making reference to the loan sheet which accompanies this methodological annex. Section A of the loan sheet concentrates on the full identification of the borrower, the use of the loan and any guarantees or package financing which might be involved. Section B of the information sheet deals with the full identification of the lenders, the organization and structure of the syndicate of banks, the participation of each bank and the terms, conditions and other contractual provisions.

The loan universe was defined to compromise syndicated loans which,

- i) carried a spread over a floating rate of interest;
- ii) were contracted or guaranteed by the State or one of its agencies (excluding law enforcement and defence institutions);
- iii) had a minimum original value of US\$1 million;
- iv) possessed an original maturity of one year or more.

9. ANY ADDITIONAL INFORMATION ON NATURE OR USE OF LOAN :

For the purposes of assembling and processing the data collected, certain procedures were followed. With regard to the identification of the lender, credit institutions which were subsidiaries of transnational banks were consolidated into the head office in those cases where the TNB possessed more than 50% of the shares of the former according to The Banker, Who Owns Whom in World Banking, 1979-1980 (London, 1980). In the case of loans with distinct rate spreads, a weighted average as calculated for the life of the loan or, in the few situations that this was not possible, the loan was divided up into components with different interest rates. In reaggregation exercises, the figures were weighted according to the relevant amounts, maturities and other quantifiable aspects of the same loans. The commissions and fees were calculated as a percentage of the original value of the loan. In relevant cases they were averaged similar to the manner just described. The US dollar was used for all loan values due to the fact that a high percentage of the total value of all these loans was denominated in that currency. All other currencies were converted using the pertinent exchange rate for the date on which the contract was signed. On this basis the combined data base for the six case studies for the 1974-1982 period reached a magnitude of US\$23.5 billion in 1980 constant values. The credits for the crisis period, 1983-1986, were dealt with separately since, for the most part, there was very little voluntary lending involved.

3. A commentary on publicly available information on the sectoral distribution of TNB exposures in the case studies

Given that the data base focused on only medium-term syndicated lending to the public sector or guaranteed by the public sector, it had little to offer as far as TNB lending to the private sector exposure is concerned. Three relatively good series of data from publicly available sources are available in so far as bank exposure (not lending) is concerned. These are the Bank for International Settlements data on total cross-border claims as relevant in their publication The Maturity Distribution of International Bank Lending, the World Bank information on disbursed and outstanding public and publicly guaranteed medium and long-term debt of country borrowers with private banks (and other financial institutions as available on the World Bank Debtor Reporting System tape) and the US Federal Financial Institutions Examination Council (FFIEC) data series on cross-border and non-local currency claims by US banking organizations reporting to the FFIEC (which is broken down into public/private sector exposure and top nine/other bank exposure) as is available in their Country Exposure Lending Survey. While the comparability between these distinct data series is far from perfect, a close reading of the publication of the Organization for Economic Co-operation and Development entitled External Debt: Definition, Statistical Coverage and Methodology (Paris, 1988), which deals precisely with these matters suggested that, at a minimum, an approximation for non-US bank and total bank exposure to the private sector can be derived by combining all this information in the manner suggested below:

<u>Banks</u>	<u>Sector</u>	<u>Source of information</u>
1. All	i) All	BIS
	ii) Public	World Bank, DRS
	iii) Private	1. i) minus 1. ii)

2.	Non-US	i) All	1. i) minus 3. i)
		ii) Public	1. ii) minus 3. ii)
		iii) Private	1. iii) minus 3. iii)
3.	US	i) All	FFIEC
		ii) Public	FFIEC
		iii) Private	FFIEC
	(a) top 9	i) All	FFIEC
		ii) Public	FFIEC
		iii) Private	FFIEC
	(b) 158 others	i) All	FFIEC
		ii) Public	FFIEC
		iii) Private	FFIEC

Needless to say, there are a number of shortcomings associated with this procedure. For example, the World Bank information in 1.ii) refers only to medium- and long-term bank exposure to public sector borrowers, that is, short-term exposure is not included here whereas it is included in the other statistical series. Given the manner of deriving the private sector exposure of all banks the effect would be to overestimate that item. This is an important impediment; however, given that the US bank exposure figures for the private sector are firm and that US banks, especially the top nine ones, are the single most exposed nationality of bank, it was felt that the procedure was acceptable.

Other shortcomings to keep in mind are that the annual exposure figures as presented in the figures and tables of this study are affected by several factors —exchange rate variations, the price deflator and debt conversions, inter alia, which might warp the conclusions drawn. Considering that most debt is denominated in US dollars and that the dollar peaked in 1985, that the deflator is common to all case studies and that debt conversion did not really amount to much before 1987, it is felt that the influence of these factors during the 1979-1986 period for which data is available would be relatively minor. A final shortcoming is that it was impossible to separate out elements of the bank exposure in the private sector so as to distinguish trade credits from other credits and to ensure that publicly guaranteed credits placed with private sector clients were excluded.

In spite of the foregoing, these data represent the best publicly available information on private sector TNB debt in these countries.

Annex 21

BANK BEHAVIOR IN ORGANIZING AND PARTICIPATING IN SYNDICATED CREDITS FOR CASE OF COLOMBIA, 1974-1986
(Millions of 1980 US dollars)

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	Total
Capital mobilized	37.5	179.0	156.0	19.6	91.6	735.3	636.5	810.0	378.5	*	*	*	-	3 044.1
I. Top 25 organizers	37.5	59.7	141.8	-	36.6	482.6	443.6	530.6	236.0	*	*	*	-	1 968.5
(Leaders)	(37.5)	(8.5)	(70.9)	(-)	(18.3)	(-)	(135.3)	(155.5)	(66.8)	*	*	*	(-)	(492.8)
(Followers)	(-)	(51.2)	(-)	(18.3)	(18.3)	(246.1)	(58.9)	(137.6)	(49.0)	*	*	*	(-)	(561.1)
(Challengers)	(-)	-	(70.9)	(-)	(-)	(236.5)	(249.4)	(237.5)	(120.2)	*	*	*	(-)	(914.5)
II. All others	-	119.3	14.2	19.6	55.0	252.7	192.9	279.4	142.5	*	*	*	-	1 075.6
Participation														
I. Top 25 organizers	37.5	55.3	77.7	9.1	42.1	369.1	312.0	761.8	192.6	176.0	44.9	497.7	-	2 226.5
(Leaders)	(9.4)	(4.6)	(28.4)	(-)	(12.2)	(-)	(106.3)	(106.9)	(44.3)	(33.1)	(3.1)	(156.2)	(-)	(504.5)
(Followers)	(-)	(26.1)	(2.8)	(6.5)	(12.2)	(178.9)	(70.6)	(158.3)	(41.7)	(49.0)	(27.6)	(135.5)	(-)	(709.2)
(Challengers)	(-)	(24.6)	(46.5)	(2.6)	(8.6)	(190.2)	(135.1)	(184.6)	(106.6)	(93.9)	(14.2)	(206.0)	(-)	(1 012.8)
II. All others	28.2	123.7	78.4	10.5	58.6	366.3	324.6	360.3	185.9	106.4	161.4	427.1	-	2 231.1
(Percentage)														
Capital mobilized	100	100	100	100	100	100	100	100	100	*	*	*	-	100
I. Top 25 organizers	100.0	33.4	90.9	-	40.0	65.7	69.7	65.5	62.3	*	*	*	-	64.7
(Leaders)	(100.0)	(4.7)	(45.4)	(-)	(20.0)	(-)	(21.3)	(19.2)	(17.6)	*	*	*	(-)	(16.2)
(Followers)	(-)	(28.6)	(-)	(-)	(20.0)	(33.5)	(9.3)	(17.0)	(12.9)	*	*	*	(-)	(18.4)
(Challengers)	(-)	(-)	(45.4)	(-)	(-)	(32.2)	(39.2)	(29.3)	(31.8)	*	*	*	(-)	(30.0)
II. All others	-	66.6	9.1	100.0	60.0	34.4	30.3	34.5	37.6	*	*	*	-	35.3
Participation														
I. Top 25 organizers	25.0	30.9	49.8	46.4	46.0	50.2	49.0	55.5	51.0	62.3	21.8	53.8	-	49.9
(Leaders)	(25.0)	(2.6)	(18.2)	(-)	(13.3)	(-)	(16.7)	(13.2)	(11.7)	(11.7)	(1.5)	(16.9)	(-)	(11.3)
(Followers)	(-)	(14.6)	(1.8)	(33.2)	(13.3)	(24.3)	(11.1)	(19.5)	(11.1)	(17.4)	(13.4)	(14.7)	(-)	(15.9)
(Challengers)	(-)	(13.7)	(29.8)	(13.3)	(9.4)	(25.9)	(21.2)	(22.8)	(28.2)	(33.3)	(6.9)	(22.3)	(-)	(22.7)
II. All others	75.0	69.1	50.2	53.6	64.0	49.8	51.0	44.5	49.1	37.7	78.2	46.2	-	50.1
Cost index	0.08	0.27	0.25	0.24	0.09	0.08	0.07	0.07	0.07	-	-	-	-	-

Source: ECLAC/CIC Joint Unit.

* During the restructuring process, 1982-1986, capital mobilized was not calculated due to the existence of bank steering committees for major borrowers.

Annex 22

BANK BEHAVIOR IN ORGANIZING AND PARTICIPATING IN SYNDICATED CREDITS FOR CASE OF ARGENTINA, 1974-82
(Millions of 1980 US dollars)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	Total
Capital mobilized													
I. Top 25 organizers	46.1	1 432.3	389.5	1 326.0	1 621.0	1 903.9	1 525.2	389.0	*	-	*	-	8 632.9
(Leaders)	46.1	1 180.1	163.3	662.5	674.3	818.8	522.8	202.5	*	-	*	-	4 270.5
(Followers)	(-)	(649.8)	(56.7)	(239.7)	(83.0)	(98.3)	(70.3)	(25.5)	*	(-)	*	(-)	(1 269.4)
(Challengers)	(-)	(220.2)	(28.1)	(152.8)	(245.7)	(326.9)	(248.7)	(93.3)	*	(-)	*	(-)	(1 315.8)
II. ALL others	(-)	(310.1)	(78.5)	(270.0)	(345.6)	(393.6)	(203.8)	(83.7)	*	(-)	*	(-)	(1 685.3)
Participation	-	252.2	226.2	663.4	946.7	1 085.1	1 002.4	188.6	*	-	*	-	4 362.6
I. Top 25 organizers	36.9	809.7	149.2	598.3	578.2	565.0	439.6	151.8	1 030.2	-	1 402.4	-	5 761.3
(Leaders)	(36.9)	(429.3)	(47.1)	(151.4)	(83.5)	(72.2)	(58.3)	(16.9)	(449.0)	(-)	(566.9)	(-)	(1 911.5)
(Followers)	(-)	(144.9)	(30.1)	(146.1)	(212.2)	(233.9)	(231.5)	(75.4)	(285.6)	(-)	(418.5)	(-)	(1 778.2)
(Challengers)	(-)	(235.5)	(72.0)	(300.8)	(282.5)	(258.9)	(149.8)	(59.5)	(295.6)	(-)	(417.0)	(-)	(2 071.6)
II. ALL others	9.2	622.7	240.3	727.6	1 042.7	1 338.9	1 085.6	237.3	1 244.0	-	1 697.2	-	8 245.5
(Percentage)													
Capital mobilized													
I. Top 25 organizers	100	100	100	100	100	100	100	100	*	-	*	-	100
(Leaders)	100	82.5	41.9	50.0	41.6	43.1	34.3	52.0	*	-	*	-	49.5
(Followers)	(100)	(45.4)	(14.6)	(18.1)	(5.1)	(5.2)	(4.6)	(6.6)	*	(-)	*	(-)	(14.7)
(Challengers)	(-)	(15.4)	(7.2)	(11.5)	(15.2)	(17.2)	(16.3)	(24.0)	*	(-)	*	(-)	(15.2)
II. ALL others	(-)	(21.7)	(20.2)	(20.4)	(21.3)	(20.7)	(13.4)	(21.5)	*	(-)	*	(-)	(19.5)
Participation	-	17.6	58.1	50.0	58.4	57.0	65.7	48.0	*	-	*	-	50.5
I. Top 25 organizers	80.0	56.5	38.3	45.1	35.7	29.7	28.8	39.0	45.3	-	45.2	-	41.1
(Leaders)	(80.0)	(30.0)	(12.1)	(11.4)	(5.2)	(3.8)	(3.8)	(4.3)	(19.7)	(-)	(18.3)	(-)	(13.6)
(Followers)	(-)	(10.1)	(7.7)	(11.0)	(13.1)	(12.3)	(15.2)	(19.4)	(12.6)	(-)	(13.5)	(-)	(12.7)
(Challengers)	(-)	(16.4)	(18.5)	(22.7)	(17.4)	(13.6)	(9.8)	(15.3)	(13.0)	(-)	(13.4)	(-)	(14.8)
II. ALL others	20.0	43.5	61.7	54.9	64.3	70.3	71.2	61.0	57.7	-	54.8	-	58.9
COST INDEX	0.24	0.51	0.28	0.19	0.07	0.09	0.12	0.31	-	-	-	-	-

Source: ECLAC/CTC Joint Unit.

* During the restructuring process, 1982-86, capital mobilized was not calculated due to the existence of bank steering committees for major borrowers.

Annex 23

BANK BEHAVIOR IN ORGANIZING AND PARTICIPATING IN SYNDICATED CREDITS FOR CASE OF PHILIPPINES, 1974-82
(Millions of 1980 US dollars)

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	Total
<u>Capital mobilized</u>	128.3	106.8	530.4	359.0	1 409.6	1 031.3	739.6	579.2	704.9	*	-	*	*	5 588.9
I. <u>Top 25 organizers</u>	34.1	103.7	358.9	174.0	024.0	639.0	366.8	180.3	244.0	*	-	*	*	3 124.0
(Leaders)	(-)	(-)	(306.9)	(91.0)	(406.6)	(155.9)	(83.8)	(9.1)	(39.9)	*	(-)	*	*	(1 092.8)
(Followers)	(-)	(76.8)	(13.9)	(28.1)	(202.9)	(86.4)	(119.6)	(49.1)	(36.0)	*	(-)	*	*	(612.9)
(Challengers)	(34.1)	(26.9)	(38.1)	(54.9)	(414.5)	(396.7)	(162.7)	(122.1)	(168.1)	*	(-)	*	*	(1 418.3)
II. <u>All others</u>	94.2	3.1	171.5	185.0	385.6	392.3	373.5	398.9	460.9	*	-	*	*	2 464.0
<u>Participation</u>														
I. <u>Top 25 organizers</u>	23.9	57.6	268.3	178.7	815.2	420.4	356.2	112.0	222.1	166.3	-	377.0	710.6	3 708.1
(Leaders)	(-)	(4.6)	(149.7)	(71.5)	(232.0)	(89.4)	(81.5)	(9.1)	(39.4)	(83.5)	-	(180.6)	(214.5)	(1 155.7)
(Followers)	(2.6)	(30.0)	(18.2)	(43.2)	(177.5)	(76.6)	(136.9)	(44.4)	(58.3)	(26.6)	(-)	(86.9)	(203.4)	(904.4)
(Challengers)	(21.3)	(23.0)	(100.4)	(64.0)	(405.7)	(254.4)	(137.8)	(58.5)	(124.4)	(56.2)	(-)	(109.5)	(292.7)	(1 648.0)
II. <u>All others</u>	104.2	49.2	262.2	180.3	594.4	610.8	383.3	467.3	482.9	237.2	-	305.7	766.9	4 444.5
(Percentage)														
<u>Capital mobilized</u>	100	100	100	100	100	100	100	100	100	*	-	*	*	100
I. <u>Top 25 organizers</u>	26.5	97.1	67.7	48.5	72.6	62.0	49.5	31.2	34.6	*	-	*	*	56.0
(Leaders)	(-)	(-)	(57.9)	(25.3)	(28.8)	(15.1)	(11.3)	(1.6)	(5.7)	*	(-)	*	*	(19.6)
(Followers)	(-)	(71.9)	(2.6)	(7.8)	(14.4)	(8.4)	(16.2)	(8.5)	(5.1)	*	(-)	*	*	(11.0)
(Challengers)	(26.5)	(25.2)	(7.2)	(15.3)	(29.4)	(38.5)	(22.0)	(21.1)	(23.8)	*	(-)	*	*	(25.4)
II. <u>All others</u>	73.4	2.7	32.3	51.5	27.4	38.0	50.5	68.9	65.4	*	-	*	*	44.0
<u>Participation</u>														
I. <u>Top 25 organizers</u>	18.9	53.9	50.6	49.8	57.8	40.8	48.1	19.4	31.5	41.2	-	55.2	48.1	45.5
(Leaders)	(-)	(4.3)	(28.2)	(19.9)	(16.5)	(8.7)	(11.0)	(1.6)	(5.6)	(20.7)	(-)	(26.5)	(14.5)	(14.2)
(Followers)	(2.0)	(28.1)	(3.4)	(12.0)	(12.6)	(7.4)	(18.5)	(7.7)	(8.3)	(6.6)	(-)	(12.7)	(13.8)	(11.1)
(Challengers)	(16.6)	(21.5)	(18.9)	(17.8)	(28.8)	(24.7)	(28.6)	(10.1)	(17.6)	(13.9)	(-)	(16.0)	(19.8)	(20.2)
II. <u>All others</u>	81.4	46.1	49.4	50.2	42.2	59.2	51.8	80.7	68.5	58.8	-	44.8	51.9	54.5
COST INDEX	0.15	0.34	0.24	0.25	0.13	0.08	0.09	0.08	0.09	-	-	-	-	-

Source: ECLAC/CTC Joint Unit.

* During the restructuring process, 1982-86, capital mobilized was not calculated due to the existence of bank steering committees for major borrowers.

Annex 24

BANK BEHAVIOR IN ORGANIZING AND PARTICIPATING IN SYNDICATED CREDITS FOR CASE OF PERU, 1974-1986
(Millions of 1980 US dollars)

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	Total
Capital mobilized	559.7	525.4	562.4	-	-	490.2	224.1	620.5	736.8	*	-	-	-	3 719.1
I. Top 25 organizers	<u>310.4</u>	<u>266.7</u>	<u>488.8</u>	-	-	<u>272.5</u>	<u>71.3</u>	<u>273.6</u>	<u>256.3</u>	*	-	-	-	<u>1 939.9</u>
(Leaders)	(107.0)	(88.3)	(297.9)	(-)	(-)	(124.2)	(32.0)	(174.1)	(117.1)	*	(-)	(-)	(-)	(940.7)
(Followers)	(35.0)	(64.5)	(116.8)	(-)	(-)	(55.2)	(25.3)	(49.1)	(28.2)	*	(-)	(-)	(-)	(374.1)
(Challengers)	(168.4)	(113.9)	(74.2)	(-)	(-)	(93.1)	(14.0)	(50.4)	(111.0)	*	(-)	(-)	(-)	(625.1)
II. All others	249.3	258.7	73.6	-	-	217.1	152.8	346.9	580.5	*	-	-	-	1 779.2
Participation														
I. Top 25 organizers	<u>261.9</u>	<u>244.5</u>	<u>350.4</u>	-	-	<u>202.5</u>	<u>57.4</u>	<u>179.0</u>	<u>200.8</u>	<u>267.8</u>	-	-	-	<u>1 780.4</u>
(Leaders)	(108.4)	(106.3)	(163.1)	(-)	(-)	(78.3)	(26.0)	(66.3)	(74.0)	(110.2)	(-)	(-)	(-)	(732.7)
(Followers)	(37.5)	(63.9)	(92.6)	(-)	(-)	(64.9)	(20.8)	(44.2)	(37.7)	(68.1)	(-)	(-)	(-)	(429.7)
(Challengers)	(116.0)	(90.3)	(94.7)	(-)	(-)	(59.3)	(10.6)	(68.5)	(89.1)	(89.5)	(-)	(-)	(-)	(618.0)
II. All others	297.8	264.8	211.9	-	-	287.8	166.8	441.6	536.0	468.2	-	-	-	2 674.8
(Percentage)														
Capital mobilized	100	100	100	-	-	100	100	100	100	*	-	-	-	100
I. Top 25 organizers	<u>55.5</u>	<u>50.8</u>	<u>86.9</u>	-	-	<u>55.6</u>	<u>31.8</u>	<u>44.1</u>	<u>34.8</u>	*	-	-	-	<u>52.2</u>
(Leaders)	(19.1)	(16.8)	(53.0)	(-)	(-)	(25.3)	(14.3)	(28.1)	(15.9)	*	(-)	(-)	(-)	(25.3)
(Followers)	(6.3)	(12.3)	(20.8)	(-)	(-)	(11.3)	(11.3)	(7.9)	(3.8)	*	(-)	(-)	(-)	(10.1)
(Challengers)	(30.1)	(21.7)	(13.1)	(-)	(-)	(19.0)	(6.2)	(8.1)	(15.1)	*	(-)	(-)	(-)	(16.8)
II. All others	<u>44.5</u>	<u>49.2</u>	<u>13.1</u>	-	-	<u>44.4</u>	<u>68.1</u>	<u>55.9</u>	<u>78.8</u>	*	-	-	-	<u>47.8</u>
Participation														
I. Top 25 organizers	<u>46.8</u>	<u>49.6</u>	<u>62.3</u>	-	-	<u>41.3</u>	<u>25.6</u>	<u>28.8</u>	<u>27.2</u>	<u>36.4</u>	-	-	-	<u>40.0</u>
(Leaders)	(19.4)	(20.2)	(29.0)	(-)	(-)	(16.0)	(11.6)	(10.7)	(10.0)	(15.0)	(-)	(-)	(-)	(16.4)
(Followers)	(6.7)	(12.2)	(16.5)	(-)	(-)	(13.2)	(9.3)	(7.1)	(5.1)	(9.2)	(-)	(-)	(-)	(9.6)
(Challengers)	(20.7)	(17.2)	(16.8)	(-)	(-)	(12.1)	(4.7)	(11.0)	(12.1)	(12.2)	(-)	(-)	(-)	(14.0)
II. All others	<u>53.2</u>	<u>50.4</u>	<u>37.7</u>	-	-	<u>58.7</u>	<u>74.4</u>	<u>71.2</u>	<u>72.7</u>	<u>63.6</u>	-	-	-	<u>60.0</u>
Cost index	0.12	0.40	0.46	-	-	0.28	0.14	0.14	0.20	-	-	-	-	-

Source: ECLAC/CTC Joint Unit.

* During the restructuring process, 1982-1986, capital mobilized was not calculated due to the existence of bank steering committees for major borrowers.

Annex 25

INTERREGIONAL PROJECT: BANK BEHAVIOR IN ORGANIZING AND PARTICIPATING IN SYNDICATED CREDITS FOR CASE OF BOLIVIA, 1974-1986
(Millions of 1980 US dollars)

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	Total
<u>Capital mobilized</u>	92.0	131.0	228.4	167.5	259.0	121.0	-	410.4	-	-	-	-	-	1 409.2
<u>I. Top 25 organizers</u>	86.6	82.6	198.6	146.8	237.5	35.9	-	246.2	-	-	-	-	-	1 037.2
(Leaders)	(63.1)	(47.9)	(177.3)	(125.2)	(189.3)	(-)	(-)	(123.1)	(-)	(-)	(-)	(-)	(-)	(726.0)
(Followers)	(23.5)	(34.7)	(-)	(21.6)	(48.2)	(35.9)	(-)	(41.0)	(-)	(-)	(-)	(-)	(-)	(208.0)
(Challengers)	(-)	(-)	(21.3)	(-)	(-)	(-)	(-)	(82.1)	(-)	(-)	(-)	(-)	(-)	(103.2)
<u>II. All others</u>	5.4	48.4	29.8	20.7	21.5	85.1	(-)	164.2	-	-	-	-	-	372.0
<u>Participation</u>														
<u>I. Top 25 organizers</u>	47.4	72.3	119.1	86.3	165.2	30.6	-	232.1	-	-	-	-	-	752.7
(Leaders)	(15.8)	(29.6)	(46.7)	(35.2)	(63.5)	(1.5)	(-)	(89.6)	(-)	(-)	(-)	(-)	(-)	(281.7)
(Followers)	(19.6)	(27.8)	(36.9)	(22.7)	(55.9)	(23.5)	(-)	(80.0)	(-)	(-)	(-)	(-)	(-)	(266.7)
(Challengers)	(12.0)	(14.9)	(35.5)	(28.4)	(45.8)	(5.6)	(-)	(62.5)	(-)	(-)	(-)	(-)	(-)	(204.6)
<u>II. All others</u>	44.6	58.6	109.4	81.2	93.9	90.4	-	178.3	-	-	-	-	-	656.5
(Percentage)														
<u>Capital mobilized</u>	100	100	100	100	100	100	-	100	-	-	-	-	-	100
<u>I. Top 25 organizers</u>	94.1	63.1	86.9	87.0	91.7	29.7	-	60.0	-	-	-	-	-	73.6
(Leaders)	(68.6)	(36.6)	(77.6)	(74.1)	(73.1)	(-)	(-)	(30.0)	(-)	(-)	(-)	(-)	(-)	(51.5)
(Followers)	(25.5)	(26.5)	(-)	(12.9)	(18.6)	(29.7)	(-)	(10.0)	(-)	(-)	(-)	(-)	(-)	(14.8)
(Challengers)	(-)	(-)	(9.3)	(-)	(-)	(-)	(-)	(20.0)	(-)	(-)	(-)	(-)	(-)	(7.3)
<u>II. All others</u>	5.9	36.9	13.0	12.4	8.3	70.3	-	40.0	-	-	-	-	-	26.4
<u>Participation</u>														
<u>I. Top 25 organizers</u>	51.5	55.2	52.1	51.6	63.8	25.2	-	56.5	-	-	-	-	-	53.5
(Leaders)	(17.2)	(22.6)	(20.4)	(21.0)	(24.5)	(1.2)	(-)	(21.8)	(-)	(-)	(-)	(-)	(-)	(20.0)
(Followers)	(21.3)	(21.2)	(16.2)	(13.6)	(21.6)	(19.4)	(-)	(19.5)	(-)	(-)	(-)	(-)	(-)	(18.9)
(Challengers)	(13.0)	(11.4)	(15.5)	(17.0)	(17.7)	(4.6)	(-)	(15.2)	(-)	(-)	(-)	(-)	(-)	(14.6)
<u>II. All others</u>	48.5	44.7	47.9	48.5	36.3	74.7	-	43.4	-	-	-	-	-	46.6
<u>Cost index</u>	0.31	0.37	0.48	0.37	0.33	0.24	-	0.34	-	-	-	-	-	-

Source: ECLAC/CTC Joint Unit.

Annex 26

BANK BEHAVIOR IN ORGANIZING AND PARTICIPATING IN SYNDICATED CREDITS FOR CASE OF URUGUAY, 1977-1986
(Millions of 1980 US dollars)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	Total
Capital mobilized											
I. Top 25 organizers											
(Leaders)	113.9	258.2	102.9	51.0	72.8	139.4	*	-	-	*	738.2
(Followers)	113.9	242.1	63.8	51.0	72.8	29.3	*	-	-	*	572.8
(Challengers)	(74.6)	(190.2)	(58.2)	(25.5)	(72.8)	(29.3)	*	(-)	(-)	*	(450.5)
II. All others	(-)	(-)	(-)	(-)	(-)	(-)	*	(-)	(-)	*	(-)
	(39.3)	(51.9)	(5.6)	(25.5)	(-)	(-)	*	(-)	(-)	*	(122.3)
	-	16.2	39.2	-	-	110.1	*	-	-	*	-165.4
Participation											
I. Top 25 organizers											
(Leaders)	76.5	194.7	48.1	41.0	45.5	62.3	385.8	-	-	719.3	1 573.3
(Followers)	(45.8)	(110.3)	(37.5)	(16.8)	(18.2)	(20.0)	(210.4)	(-)	(-)	(437.8)	(896.8)
(Challengers)	(5.2)	(23.4)	(2.2)	(8.6)	(9.1)	(14.4)	(77.7)	(-)	(-)	(138.0)	(208.7)
II. All others	(25.5)	(61.0)	(8.4)	(15.6)	(18.2)	(27.9)	(97.7)	(-)	(-)	(143.5)	(397.8)
	37.3	63.5	54.8	10.0	27.3	77.1	317.4	-	-	502.5	1 089.9
(Percentage)											
Capital mobilized											
I. Top 25 organizers											
(Leaders)	100	100	100	100	100	100	*	-	-	*	100
(Followers)	100	93.8	62.0	100	100	21.0	*	-	-	*	77.6
(Challengers)	(65.5)	(73.7)	(56.6)	(50.0)	(100)	(21.0)	*	(-)	(-)	*	(61.0)
II. All others	(-)	(-)	(-)	(-)	(-)	(-)	*	(-)	(-)	*	(-)
	(34.5)	(20.1)	(5.4)	(50.0)	(-)	(-)	*	(-)	(-)	*	(-)
	*	(16.6)	-	-	-	-	*	-	-	*	22.4
Participation											
I. Top 25 organizers											
(Leaders)	67.2	75.4	46.7	80.4	62.5	44.7	55.0	-	-	59.0	59.1
(Followers)	(40.2)	(42.7)	(36.4)	(32.9)	(25.0)	(14.3)	(30.0)	(-)	(-)	(36.0)	(33.7)
(Challengers)	(4.6)	(9.1)	(2.1)	(16.9)	(12.5)	(10.3)	(11.0)	(-)	(-)	(11.3)	(7.8)
II. All others	(22.4)	(23.6)	(8.2)	(30.6)	(25.0)	(20.0)	(14.0)	(-)	(-)	(11.7)	(14.9)
	32.7	24.6	53.3	19.6	37.5	55.3	45.0	-	-	41.0	40.9
Cost index	0.36	0.16	0.12	0.11	0.10	0.22	-	-	-	-	-

Source: ECLAC/CTC Joint Unit.

* During the restructuring process, 1982-1986, capital mobilized was not calculated due to the existence of bank steering committees for major borrowers.

Annex 27

ARGENTINA, BANK EXPOSURE TO PUBLIC AND PRIVATE SECTOR BORROWERS, 1979-1986

(Millions of 1980 US dollars)

	1979	1980	1981	1982	1983	1984	1985	1986
							(r)	
1. <u>All banks:</u>								
<u>Total debt a/</u>	15 019	19 940	22 606	21 745	21 605	19 428	21 682	22 444
Public sector b/	4 915	6 065	5 894	5 823	10 972	11 002	16 341	17 464
Private sector d/	10 104	13 875	16 712	15 922	10 633	8 426	5 341	4 980
2. <u>Non-US:</u>								
<u>Total debt d/</u>	9 623	13 074	14 960	14 775	14 747	13 293	15 475	16 285
Public sector d/	3 622	4 569	3 529	3 225	8 072	7 894	12 682	13 390
Private sector d/	6 001	8 505	11 431	11 550	6 675	5 399	2 793	2 895
3. <u>US Banks c/:</u>								
<u>Total debt</u>	5 396	6 866	7 646	6 970	6 858	6 135	6 207	6 159
Public sector	1 293	1 496	2 365	2 598	2 900	3 108	3 659	4 074
Private sector	4 103	5 370	5 281	4 372	3 958	3 027	2 548	2 085
a) Top 9:								
<u>Total debt</u>	3 285	4 247	4 742	4 340	4 318	3 928	4 336	4 283
Public sector	1 056	1 243	1 712	1 894	2 115	2 081	2 608	2 862
Private sector	2 229	3 004	3 030	2 446	2 203	1 847	1 728	1 421
b) 158								
<u>Total debt</u>	2 111	2 619	2 904	2 630	2 540	2 207	1 871	1 878
Public sector	237	253	653	704	785	1 027	1 051	1 212
Private sector	1 874	2 366	2 251	1 926	1 755	1 180	820	664

Source: See Annex 17 for sources and notes.

Annex 28

PHILIPPINES, BANK EXPOSURE TO PUBLIC AND PRIVATE SECTOR BORROWERS, 1979-1986

(Millions of 1980 US dollars)

	1979	1980	1981	1982	1983	1984	1985	1986
1. All banks:								
<u>Total debt a/</u>	<u>8 256</u>	<u>9 348</u>	<u>9 285</u>	<u>10 630</u>	<u>11 103</u>	<u>9 516</u>	<u>9 499</u>	<u>10 020</u>
Public sector <u>b/</u>	2 082	2 536	2 689	3 234	3 537	3 683	3 998	7 679
Private sector <u>d/</u>	6 174	6 812	6 596	7 093	7 566	5 833	5 501	2 340
2. Non-US:								
<u>Total debt d/</u>	<u>3 754</u>	<u>4 702</u>	<u>4 395</u>	<u>5 765</u>	<u>6 214</u>	<u>5 321</u>	<u>5 500</u>	<u>6 330</u>
Public sector <u>d/</u>	705	937	775	1 164	1 283	1 804	1 550	5 112
Private sector <u>d/</u>	3 049	3 765	3 620	4 601	4 931	3 517	3 950	1 218
3. US Banks c/:								
<u>Total debt</u>	<u>4 502</u>	<u>4 646</u>	<u>4 890</u>	<u>4 865</u>	<u>4 889</u>	<u>4 195</u>	<u>3 999</u>	<u>3 690</u>
Public sector	1 377	1 599	1 914	2 070	2 254	1 879	2 448	2 567
Private sector	3 125	3 047	2 976	2 795	2 635	2 316	1 551	1 123
a) Top 9:								
<u>Total debt</u>	<u>3 270</u>	<u>3 224</u>	<u>3 321</u>	<u>3 287</u>	<u>3 170</u>	<u>2 889</u>	<u>2 798</u>	<u>2 676</u>
Public sector	1 196	1 147	1 449	1 522	1 452	1 286	1 709	1 887
Private sector	2 074	2 077	1 872	1 765	1 718	1 603	1 089	789
b) 158								
Others:								
<u>Total debt</u>	<u>1 232</u>	<u>1 422</u>	<u>1 569</u>	<u>1 578</u>	<u>1 719</u>	<u>1 306</u>	<u>1 201</u>	<u>1 014</u>
Public sector	181	452	465	548	802	276	739	1 778
Private sector	1 051	970	1 104	1 030	917	713	462	33

Source: See Annex 17 for sources and notes.

Annex 29

COLOMBIA, BANK EXPOSURE TO PUBLIC AND PRIVATE SECTOR BORROWERS, 1979-1986

(Millions of 1980 US dollars)

	1979	1980	1981	1982	1983	1984	1985	1986
							(r)	
1. <u>ALL banks:</u>								
<u>Total debt a/</u>	3 982	4 632	4 949	5 345	5 466	5 004	4 721	4 866
Public sector b/	1 099	1 449	1 994	2 261	2 469	2 646	2 673	3 353
Private sector d/	2 883	3 183	2 955	3 084	2 997	2 358	2 048	1 514
2. <u>Non-US:</u>								
<u>Total debt d/</u>	1 556	1 977	2 423	2 639	2 792	2 722	2 784	3 314
Public sector d/	483	814	1 315	1 405	1 621	1 770	1 747	2 483
Private sector d/	1 073	1 163	1 108	1 234	1 171	952	1 037	831
3. <u>US Banks c/:</u>								
<u>Total debt</u>	2 426	2 655	2 526	2 706	2 674	2 282	1 937	1 552
Public sector	616	635	679	856	848	876	926	870
Private sector	1 810	2 020	1 847	1 850	1 826	1 406	1 011	682
a) Top 9:								
<u>Total debt</u>	1 754	1 800	1 785	1 884	1 806	1 678	1 420	1 104
Public sector	529	510	527	718	685	725	762	699
Private sector	1 225	1 290	1 258	1 166	1 121	953	658	405
b) 158								
Others:								
<u>Total debt</u>	672	855	741	822	868	604	517	448
Public sector	87	125	152	138	163	151	164	171
Private sector	585	730	589	684	705	453	353	277

Source: See Annex 17 for sources and notes.

Annex 30

PERU, BANK EXPOSURE TO PUBLIC AND PRIVATE SECTOR BORROWERS, 1979-1986

(Millions of 1980 US dollars)

	1979	1980	1981	1982	1983	1984	1985	1986
				(r)	(r)			
1. All banks:								
Total debt a/	4 196	4 053	4 015	4 533	4 121	3 671	3 458	3 245
Public sector b/	2 792	2 310	2 000	2 456	2 782	2 875	2 902	2 843
Private sector d/	1 404	1 743	2 015	2 077	1 340	796	555	402
2. Non-US:								
Total debt d/	2 630	2 329	2 221	2 381	2 109	1 858	2 237	2 274
Public sector d/	1 987	1 468	1 242	1 680	1 484	1 652	2 053	2 197
Private sector d/	643	861	979	701	625	206	184	77
3. US Banks c/:								
Total debt	1 566	1 724	1 794	2 152	2 012	1 813	1 221	971
Public sector	805	842	758	776	1 298	1 223	849	646
Private sector	761	882	1 036	1 376	714	590	372	325
a) Top 9:								
Total debt	1 034	1 072	956	1 155	1 091	996	706	591
Public sector	509	554	485	448	800	656	488	369
Private sector	525	518	471	707	291	340	218	222
b) 158 others:								
Total debt	532	652	838	997	921	817	515	380
Public sector	296	288	273	328	498	567	361	277
Private sector	236	364	565	669	423	250	154	103

Source: See Annex 17 for sources and notes.

Annex 31

BOLIVIA AND URUGUAY, BANK EXPOSURE TO ALL BORROWERS, 1979-1986

(Millions of 1980 US\$ dollars)

	1979	1980	1981	1982	1983	1984	1985	1986
			(r)					
BOLIVIA								
1. All banks a/	<u>1 601.8</u>	<u>1 112.0</u>	<u>1 020.0</u>	<u>1 296.4</u>	<u>678.3</u>	<u>540.7</u>	<u>475.3</u>	<u>426.3</u>
2. Non-US d/	<u>1 006.7</u>	<u>676.0</u>	<u>753.4</u>	<u>983.1</u>	<u>433.9</u>	<u>389.2</u>	<u>399.3</u>	<u>362.0</u>
3. US banks b/	<u>595.1</u>	<u>436.0</u>	<u>266.6</u>	<u>313.3</u>	<u>244.4</u>	<u>151.5</u>	<u>76.0</u>	<u>64.3</u>
a) Top 9	<u>397.1</u>	<u>285.0</u>	<u>247.5</u>	<u>194.8</u>	<u>160.5</u>	<u>87.7</u>	<u>40.6</u>	<u>31.1</u>
b) 158 others	<u>198.0</u>	<u>151.0</u>	<u>19.1</u>	<u>118.5</u>	<u>83.9</u>	<u>63.8</u>	<u>35.4</u>	<u>33.2</u>
URUGUAY								
					(r)			(r)
1. All banks a/	<u>479.9</u>	<u>639.0</u>	<u>928.1</u>	<u>1 295.9</u>	<u>1 584.6</u>	<u>1 559.9</u>	<u>1 705.6</u>	<u>1 677.0</u>
2. Non-US d/	<u>172.3</u>	<u>241.1</u>	<u>367.6</u>	<u>510.2</u>	<u>754.8</u>	<u>769.2</u>	<u>1 054.6</u>	<u>1 034.7</u>
3. US banks b/	<u>307.6</u>	<u>398.0</u>	<u>560.5</u>	<u>785.7</u>	<u>829.8</u>	<u>790.7</u>	<u>651.0</u>	<u>642.3</u>
a) Top 9	<u>232.7</u>	<u>302.0</u>	<u>419.5</u>	<u>536.8</u>	<u>616.1</u>	<u>591.5</u>	<u>512.2</u>	<u>491.3</u>
b) 158 others	<u>74.9</u>	<u>96.0</u>	<u>141.0</u>	<u>248.9</u>	<u>209.7</u>	<u>199.2</u>	<u>138.8</u>	<u>151.0</u>

Source: See Annex 17 for sources and notes.

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